Strong global presence in advanced polymer compounds

ANNUAL REPORT 2019
WITH SUSTAINABILITY REPORT

HEXPOL
A Material Difference

We help customers worldwide to secure critical applications with advanced polymer solutions

HEXPOL is a world-leading polymer group with strong global market positions and customers who impose rigorous demands on quality, security of supply and research and development.

HEXPOL's strengths are its locally rooted entrepreneurial spirit, excellent market awareness, cutting-edge knowledge and development capabilities in advanced polymer compounds and its global platform. The Group is organized into two business areas, HEXPOL Compounding and HEXPOL Engineered Products, which, between them, cover a total of eight product areas. HEXPOL generates annual sales of 15.5 billion SEK and has 5,061 employees at 52 units in America, Europe and Asia. Most of the units are complete organizations with their own sales, product development and production.

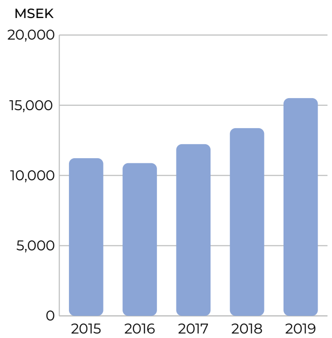
SALES 2019
15,508 MSEK
(13,370 MSEK)

OPERATING PROFIT* 2019
2,242 MSEK
(2,150 MSEK)

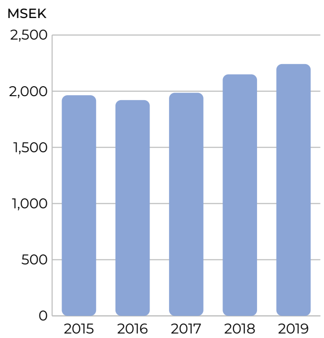
EARNINGS PER SHARE*
4.93 SEK
(4.78 SEK)

PROPOSED DIVIDEND
2.30 SEK
(2.25 SEK)

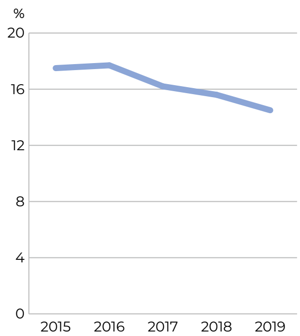
Sales



Operating profit*



Operating margin*



* Adjusted for non-recurring items.

Global driving forces

Like other companies, the Group is affected by global driving forces and external changes, which HEXPOL continuously monitors and assesses. Five global driving forces are highlighted below. Read more about these on pages 8–9.

Urbanization

By 2050, almost seven out of ten people in the world will be living in cities. This imposes entirely new demands on urban flows surrounding goods, services, people, energy and information.

Mobility

Mobility for people, goods and data is changing at a rapid pace and requires completely new solutions to meet new demands in everything from passenger transport to new logistics formats.

Health

An ageing population and increased interest in health and well-being will provide opportunities for development for companies around the world.

Circular economy

The amount of waste in the world is expected to almost double within five years. Greater focus must be directed on the entire lifecycle of a product, as well as materials choices and types of waste from production processes.

Digitization

Digitization is a decisive development opportunity for companies - both in terms of increased productivity and efficiency and for integrating customer data, customer relationships and transparency.

Table of contents

Board of Directors' Report and Financial Report
HEXPOL's Annual Report is published in Swedish and English. The Swedish version is the original and has been audited by HEXPOL's auditor. The annual and consolidated accounts for the 2019 financial year, which are reviewed and audited by the Company's auditor - the Board of Directors' Report - are included on pages 38–53 and the financial information on pages 68–92. See also the Audit Report on pages 93–95.

Other external review
The auditor has reviewed the Corporate Governance Report, pages 56-65, in accordance with FAR's statement RevU 16 The auditor's examination of the corporate governance statement. In accordance with Chapter 6, Section 11 of the Annual Accounts Act, HEXPOL has chosen to summarize the Statutory Sustainability Report within the Annual Report, pages 41-48.

Accounting in accordance with GRI Standards
HEXPOL's standalone sustainability report can be downloaded from www.hexpol.com a few weeks after the Annual Report has been published. HEXPOL reports sustainability for 2019 in accordance with the GRI Standards, Global Reporting Initiative guidelines for sustainability reporting, Core option.

HEXPOL and Global Compact
Since 2017, HEXPOL has been affiliated to the UN's Global Compact network, an initiative for responsible business practices focusing on the environment, working conditions, human rights and anti-corruption. The Group submits an annual Communication On Progress (COP) to the UN.

Climate impact
HEXPOL reports carbon dioxide emissions (carbon dioxide equivalents, CO_2e) in accordance with the Greenhouse Gas Protocol (GHG). The reporting covers emissions from direct energy use (Scope 1) and indirect energy use (Scope 2). In a separate report to the Carbon Disclosure Project (CDP), the Group reports on its climate impact and the measures being taken to mitigate this.

Continued growth and strong financial position

For HEXPOL, 2019 was an eventful year. The most prominent event was our acquisition of Preferred Compounding in the US. This was a significant and strategically important acquisition, the Group's largest to date, which reinforces our already global position and further strengthens our cutting-edge expertise in new applications. The process of integrating the two acquisitions made in 2018 has exceeded our expectations and advanced our positions, both in terms of markets and materials segments.

During the 2019 financial year, the strengths of HEXPOL's shared culture and business structure were clearly evident. An agile organization, able to successfully integrate acquired companies, to adapt quickly to changes in demand and also make major acquisitions. At the same time, we continue to do what we do best - not only meeting our customers' usually very exacting demands, but also responding to our customers' future challenges. Our culture works because we are able to combine global coordination of business-critical processes with entrepreneurial spirit at the local level and its more market-related opportunities.

The acquisitions in 2018 of the compounder Kirkhill Rubber and of MESGO, a leader in high-performance elastomers, are good examples of how we can quickly and profitably integrate our acquisitions. Both acquisitions were fully integrated in the Group during early 2019. In addition, MESGO will be able to take advantage of HEXPOL's global position to increase its global sales.

The same rapid integration process was included in the planning from an early stage when the HEXPOL Group made its largest acquisition to date in July: Preferred Compounding, a major Rubber Compounder in North America, with sales in of approximately 2,400 MSEK in 2018, has five facilities in the US and one in Mexico. The acquisition further strengthens our position as a leading global player, which, in addition to new cutting-edge expertise and reinforced knowledge of applications, also provides the prerequisites for an improved supply chain. We are very pleased with the acquisition of Preferred Compounding and, together, we will be able to continue developing our combined compounding operations in the Americas.

Acquisitions drove growth in 2019

HEXPOL's two business areas, HEXPOL Compounding and HEXPOL Engineered Products, were able to increase their sales and, for the Group overall, sales increased by

"With our strong operating cash flow and robust financial position, we are well-equipped for continued expansion."

”Our culture works because we are able to combine global coordination of business-critical processes with entrepreneurial spirit at the local level and its more market-related challenges.”

13 percent in 2019 to 15,508 MSEK (13,770), due largely to the acquisitions that have been made. The overall organic sales trend was, however, negative for the year, due to a slowdown in demand. Earnings per share, adjusted for items affecting comparability, rose by 3 percent over the year to 4.93 SEK. Operating cash flow was strong and increased by 29 percent to 2,607 MSEK.

Thanks to continued high earnings levels and good management of working capital, HEXPOL's stable financial position also enabled us to increase the proposed ordinary dividend to 2.30 SEK per share.

Extensive experience in extracting synergies

The HEXPOL Group has a history of, and proven capacity for, generating profitability in our acquisitions by identifying synergies early and then resolutely implementing the integration with existing operations. At the same time, we have the experience, the processes and a production model that is flexible thanks to its batch production. We are able to adapt quickly, both to serve customers in the best manner possible and to adjust capacity to demand. This grants us opportunities to effectively protect our margins.

HEXPOL's operations lie early in the business cycle and are a good indicator of fluctuations in demand for a number of industries. During 2019, we saw demand gradually weakening, primarily in the automotive industry, but also in certain other industrial segments. When sales decline among customers with proprietary rubber compounding capacity, they tend to insource somewhat more, and this also affected our organic sales growth negatively.

As a result of both the acquisition of Preferred Compounding and a slowdown in demand, we implemented a programme of integration and restructuring in 2019, including a review of our shared production capacity in HEXPOL Compounding Americas. The programme mainly involved the closure of two production units and Preferred's head office, as well as the adaptation of the business unit's overhead organization, at a cost of 199 MSEK, including acquisition and legal expenses. Depending on how the general market in the Americas develops in 2020, it may be necessary to implement further capacity adjustments, the cost of which is currently estimated at about 100 MSEK. Cost synergies are estimated at around 95 MSEK on an annual basis following implementation of the integration and restructuring project, which is expected to be completed by the end of 2020.

Continued growth through acquisitions

Our latest acquisitions follow our growth strategy well. With the acquisition of Preferred Compounding, we have now attained such a strong position in rubber compounding that, in the future and in all of our markets, we will primarily be seeking smaller add-on acquisitions that complement our product platform well, quickly boosting performance. The acquisition of MESGO Group gave us a strong position in high-performance elastomers such as fluoro-carbon rubber

"Leveraging our strong platform and knowledge-intensive organization for both increased cross-selling and benchmarking for efficiency improvements remains a priority in 2020."

and silicone. High-performance elastomers will provide an important platform for continued growth, and we believe we can play an active role in consolidating that market.

Our strategy to grow both organically and through acquisitions stands firm and, with a strong financial position and diversified financing, HEXPOL enjoys favourable conditions for achieving its growth objectives.

As a global player, ethical and sustainable operations are a focal issue for us, and we report on and follow up our sustainability work transparently. We are also working on a number of development projects generating green growth and new opportunities for our customers. During the year, we initiated, for example, an advanced collaboration with a global customer, in which we return the customer's vulcanized rubber waste to the production process. We have also introduced a TPE product based entirely on recycled material – Dryflex Circular – which has attracted considerable interest.

HEXPOL's priorities in 2020

Implementing our restructuring programme in the US is an important priority, in which we have identified synergies that will steadily strengthen our competitiveness and profitability.

HEXPOL will continue to grow. Organically through focused marketing and development efforts. With regard to acquisitions, we are, as always, working actively and evaluating a number of opportunities in our various niches, always with good profitability and strong cash flow as the objective.

Leveraging our strong platform and knowledge-intensive organization for both increased cross-selling and benchmarking for efficiency improvements remains a priority in 2020. Not least because of the uncertainty surrounding Covid-19. At the time of writing, it is not possible to fully predict the financial consequences for HEXPOL. Alongside our suppliers, we will, however, do everything possible to mitigate the consequences for our customers and for the entire Group.

In conclusion, I would like to thank our customers, suppliers and shareholders for your continued confidence in 2019. Employees around the world have reliably continued to deliver quality to our customers – my warm thanks to all of you. I would also like to take this opportunity to welcome all the new employees from the acquired units.

With global positions in the right segments, a co-ordinated organization and financial capacity, HEXPOL stands on a solid foundation. I am convinced that we can continue to grow and develop our Group, generating value for our stakeholders in 2020.

Malmö, Sweden, March 2020

Peter Rosén, Acting CEO

HEXPOL as an investment

Since its initial public offering in 2008, HEXPOL has generated shareholder value through a steady return on equity, which has, on average exceeded 20 percent in recent years. HEXPOL's dividend policy is that 25 to 50 percent of profit after tax for the year will be distributed as a dividend to HEXPOL's shareholders, provided that the company's financial position is regarded as satisfactory. Over the past five years, HEXPOL's Class B shares have had an average total return of about 9 percent annually.

Strong growth orientation

HEXPOL's strategy is to grow both organically and through acquisitions with good operating margins and strong operating cash flows. The companies that are acquired are always within the company's core areas, requiring detailed knowledge about the units acquired and the relevant market. The Group has consistently acquired companies in already established and new markets and built new units under its own auspices in emerging markets, such as China and Mexico.

Hexpol has grown organically and through acquisitions, from sales of nearly 500 MSEK in 2001 to sales of 15,508 MSEK in 2019. The expansion has been combined with significantly improved operating margins.

READ MORE ABOUT HEXPOL'S GROWTH STRATEGY ON PAGES 14–17.

Global market positions

HEXPOL holds strong global market positions in advanced polymer compounds, gaskets for plate heat exchangers and wheels made of plastic and rubber materials for forklifts and castor wheel applications. The ambition is to be a market leader, ranking number one or two, in selected technological or geographical segments. Five global driving forces - Urbanization, Mobility, Health, Circular economy, Digitization - can properly managed generate opportunities to further strengthen HEXPOL's positions.

HEXPOL has 52 production units and sales organizations in Europe, America and Asia that are able to deliver flexible solutions to global systems suppliers and OEMs in a coordinated network. HEXPOL is represented in most industrial segments requiring leading knowledge and development capabilities in advanced polymers, the largest segments being the automotive and engineering sectors.

READ MORE ABOUT HEXPOL'S MARKET POSITIONS AND GLOBAL DRIVING FORCES ON PAGES 8–9, 28 AND 33–34.

High value in the customer offering

HEXPOL's customers impose rigorous demands and have high expectations in terms of flexible and fast deliveries of customer-specific polymer compounds or components that are to resolve new challenges, often in the most demanding environments. Other requirements include uniform quality and global delivery capacity.

By offering the best service in the market, cutting-edge expertise in polymeric materials and solid knowledge of applications, HEXPOL demonstrates that it strengthens its customers' competitiveness in their relevant markets, frequently in direct cooperation with system suppliers' and OEM's own development departments. HEXPOL offers customer-specific solutions in the product areas rubber, TPE, thermoplastics, as well as in Gaskets & Seals and Wheels.

READ MORE ABOUT HEXPOL'S PRODUCT RANGE ON PAGES 26–27 AND 32–33.

The HEXPOL share and shareholders

Share, share price trend and trading volume

The price paid for HEXPOL's Class B share rose by 31 percent (-16) in 2019, while the index with comparable industrial companies, SX2000 Stockholm Industrials, rose by 47 percent (-14). The Stockholm exchange as a whole, Nasdaq Stockholm, rose by 31 percent (-8).

The highest price paid for HEXPOL's Class B share was noted on 17 December at 94.25 SEK and the lowest on 15 August at 65.75 SEK.

During 2019, 202.8 million (166.7) HEXPOL shares were traded. An average of 811,217 shares (666,814) were traded per trading day. The number of shares traded represented 62 percent (48) of the total number of shares. In addition to Nasdaq Stockholm, the HEXPOL share is traded on marketplaces including Cboe BXE[1], Turquoise, and Cboe CXE[2].

HEXPOL's total return increased by 35 percent over the year, which is in line with the OMX GI[3] index, which climbed 35 percent. Over the past five years, HEXPOL's Class B share has on average had a total return of 9 percent. The corresponding figure for OMX GI is 14 percent.

Ownership structure

HEXPOL's Class B share has been listed on the exchange since 2008. Today, the share is included on Nasdaq Stockholm's large company list, Large Cap, under HPOL B. The share capital in HEXPOL AB totals 68,840,256 SEK, distributed between 344,201,280 shares. Of these, 14,765,620 are Class A shares and 329,435,660 Class B shares. Each Class A share carries ten voting rights and a Class B share one voting right. All shares carry equal rights to the company's assets and earnings.

As of 31 December 2019, HEXPOL AB had 12,075 shareholders (12,212). The major shareholder is Melker Schörling AB, who owns all Class A shares. Melker Schörling AB also holds Class B shares and owns in total 25 percent of the share capital and 46 percent of the voting rights. The number of shares held by non-Swedish shareholders totalled 40 percent (38) of the capital. The 20 largest shareholders accounted for 72 percent (69) of the capital and 80 percent (78) of the voting rights.

Dividend policy

HEXPOL's earnings trend and equity/assets ratio determine the size of the dividend. HEXPOL's dividend policy is that 25 to 50 percent of profit after tax for the year will be distributed as a dividend to HEXPOL shareholders, on condition that the Group's financial position is deemed satisfactory. For 2019, the Board of Directors proposes a dividend of 2.30 SEK (2.25), corresponding to approximately 51 percent of net profit for the year. Taking non-recurring items into account, the corresponding figure is 47 percent.

Warrants programme

During 2016, a warrants programme was implemented for Group management, senior managers and key employees within the Group. Under the programme, 2,100,000 subscription warrants entitling to subscription for the corresponding number of new shares of series B in HEXPOL AB offered for sale to participants of the programme. During 2016, 1,408,000 warrants were subscribed for by senior executives and key employees.

The warrant price was 9.00 SEK per warrant and each warrant entitles subscription for 1.01 shares at a strike price of 88.70 SEK, adjusted for the extra dividend in May 2017 according to the warrant terms. During 2017, 225,000 warrants were subscribed for by one senior executive with the warrant price of 9.00 SEK per warrant and each warrant entitle to subscribe for 1 share with the strike price of 88.70 SEK.

The remaining warrants have been reserved for future senior management and recruitment of persons within the categories eligible. The rate is based on a market valuation taking into account the established option consideration in accordance with the Black & Scholes method. The options may be exercised from 1 June 2019 to 31 December 2020.

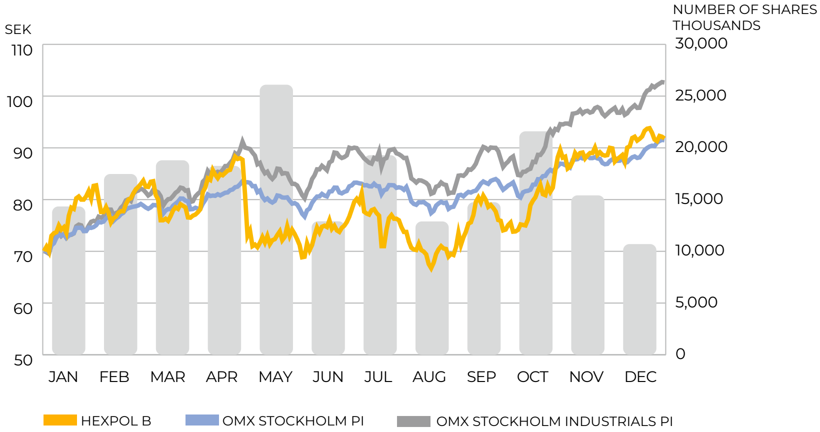
Shareholder value and analysts

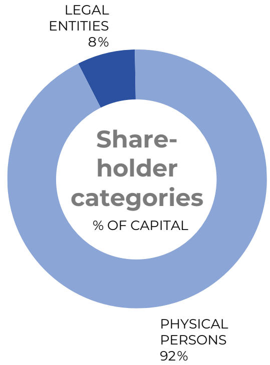
HEXPOL's executive management works continuously to develop the company's financial information to create favourable conditions for valuing the Group in the most accurate manner possible. This includes working actively through meetings with analysts, shareholders and the media. Peter Rosén, Acting CEO and CFO, is responsible for IR matters at HEXPOL: tel. +46 (0)40-25 46 60, ir@hexpol.com.

For a current list of the analysts who continuously monitor HEXPOL, visit www.hexpol.com.

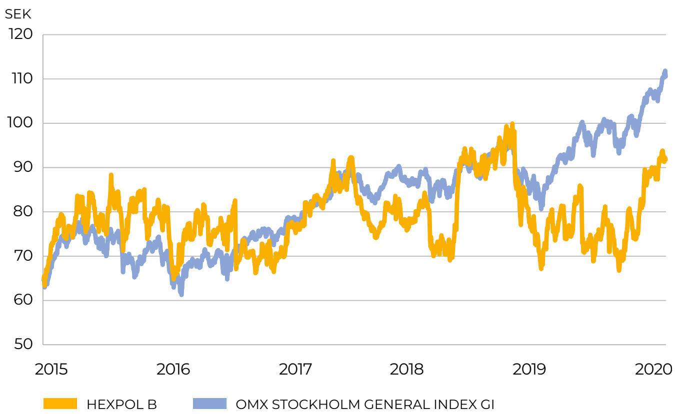
1) Formerly BATS Europe
2) Formerly ChiX
3) OMX GI (Nasdaq Stockholm General Index), the average trend on Nasdaq Stockholm including dividends.

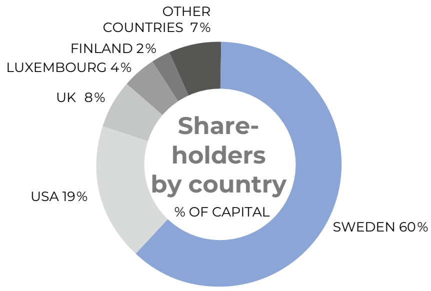
Share price trend and trading volume, 1 Jan–31 Dec 2019





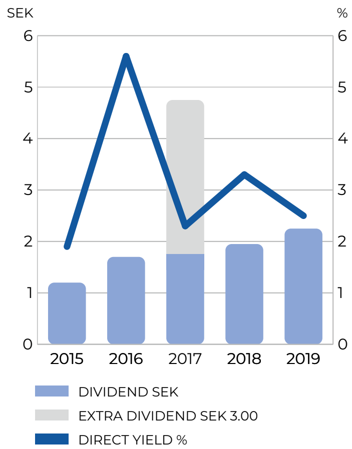
Total return 2015–2019





Dividends and direct yield per share

ADJUSTED FOR A 10:1 SHARE SPLIT IN 2015



Key figures per share

(ADJUSTED FOR A 10:1 SHARE SPLIT IN 2015, ADJUSTED FOR NON-RECURRING ITEMS.)

Year	2019	2018	2017	2016	2015
Earnings, SEK	4.93	4.78	4.44	4.06	4.05
Shareholders' equity, SEK	28.34	24.96	20.37	21.96	18.11
Dividend, SEK	2.25	1.95	4.75*	1.70	1.20
Market price Class B shares, last price paid 31 Dec, SEK	91.80	70.05	83.15	84.35	91.10
Cash flow from operating activities, SEK	6.86	5.25	4.94	4.97	5.11

* Including extra dividend of 3.00 SEK per share.

SEE ALSO "10-YEAR SUMMARY" AT PAGE 96.

Major shareholders

Shareholders	Class A shares	Class B shares	Share capital (%)	Votes (%)
Melker Schörling AB	14,765,620	69,413,430	24.5	45.5
State street bank and trust co., W9	0	35,285,284	10.2	7.4
Didner & Gerge Fonder Aktiebolag	0	22,857,578	6.6	4.8
JPM Chase NA	0	14,346,031	4.2	3.0
Alecta Pensionsförsäkring, mutual	0	13,000,000	3.8	2.7
BNY Mellon NA (Former Mellon) W9	0	10,979,096	3.2	2.3
Handelsbanken fonder	0	9,419,000	2.7	2.0
Lannebo fonder	0	8,580,763	2.5	1.8
CBNY-Norges Bank	0	7,753,985	2.2	1.6
Swedbank Robur Fonder	0	6,272,208	1.8	1.3
Total of the 10 largest shareholders	**14,765,620**	**197,907,375**	**61.7**	**72.4**
Total other shareholders	**0**	**131,528,285**	**38.3**	**27.6**
Total	**14,765,620**	**329,435,660**	**100.0**	**100.0**

Sources: WebFinanceGroup and Euroclear.

Shareholder distribution

Number of shares per shareholder	Number of share-holders	Class A shares	Class B shares
1 – 500	7,553	0	932,855
501 – 1,000	1,351	0	1,105,881
1,001 – 5,000	2,053	0	4,894,103
5,001 – 20,000	730	0	3,292,593
20,001 –	388	14,765,620	319,210,228
Total	**12,075**	**14,765,620**	**329,435,660**

Global driving forces

HEXPOL benefits from strong positions within its principal segments and, with its worldwide organization, is able to offer customer-specific solutions with long-term favourable profitability. Like other companies, the Group is affected by global driving forces and external changes. HEXPOL continuously monitors and assesses these to ensure accurate positioning, minimize risk and exploit new opportunities.

HEXPOL highlights five global driving forces – Urbanization, Mobility, Health, Circular Economy and Digitization – which, properly managed, generate opportunities to further strengthen HEXPOL's positions:

Five global driving forces	Impact and potential	HEXPOL's position
Urbanization Today, 55 percent of the world's population lives in urban areas, a proportion that is expected to rise to 70 percent by 2050. Forecasts show that urbanization, combined with the total growth of the world's population, can add another 2.5 billion people to the world's cities by 2050, with close to 90 percent of the increase occurring in Asia and Africa.	The functionality of the smart city requires well-functioning urban flows around goods, services, people, energy and information. The challenges are many, but can be met through investments in sustainable innovations and choices of materials that secure assets.	With production in the Americas, Europe and Asia HEXPOL is able to benefit from its global presence and to tackle increased urbanization with its expertise in unique materials and customer-specific applications in a wide range of areas.
Mobility Global demand for passenger mobility will double by 2050. Individual daily journeys have already increased significantly since 2015, exerting increased pressure on existing mobility systems. Even greater growth is expected in goods mobility, particularly in dense urban areas, partly due to growing e-commerce and demand for last-mile deliveries.	Strong trends around MaaS (Mobility as a Service) such as car pools, car sharing and innovative public transport based on demand, as well as self-driving vehicles and electrification of both passenger and goods transport, generate uncertainty and opportunities alike within the automotive industry. Automation and robotization are on the rise in both industry and logistics.	HEXPOL has strong positions with global customers in transport in general, but also advanced positions with unique applications for materials handling. Electrification in the automotive industry, with the aim of reducing weight to lower energy consumption are examples of areas where HEXPOL's advanced materials are in demand.

Five global driving forces	Impact and potential	HEXPOL's position
Health Around the world, the portion of the population aged 65 years and older is growing faster than all other age groups. Ageing, growing populations and a greater prevalence of chronic welfare disorders, as well as the increased focus of the individual on well-being, are increasing demand in health globally and, with it, spending.	Ageing populations and increasing welfare disease require innovative solutions in preventive health, medicine, medical technology and assistive technologies, with cooperation, know-how and sustainable materials being key success factors. Increased interest in personal well-being and health is also driving the consumer market.	HEXPOL has a number of innovative customer applications in the Life Sciences segment where, for example, its proprietary brand Mediprene holds a strong position. The Group also has customers in consumer-related products for well-being and health.
Circular economy Every day, 3.5 million tonnes of waste are produced worldwide, and that figure is expected to nearly double within five years. The circular economy aims to no longer allow products to become waste, once they have served out their purpose, but to reintroduce them into the production cycle as secondary raw materials.	At all stages, demands are increasing that raw materials be used sustainably and efficiently. For this reason, resource-intensive industries benefit by reprocessing valuable raw materials. Increasingly, end customers demand that products have an extended service life, are recyclable and manufactured sustainably.	HEXPOL has built a strong position through both extensive customer know-how and long-term development work with materials including Dryflex Circular and RheVision, which are well-suited to the purposes of the circular economy.
Digitization Companies are investing in digitization technologies to accelerate growth and productivity. In 2020, global digitization spending is expected to amount to approximately 24,000 billion SEK annually, led by the Internet of Things (IoT).	Digitization investments are being made to drive enhanced efficiency, improve customer experiences and establish new business models – among which, improved efficiency has been the clearest driving force to date. Digital systems are introduced to create integrated customer information, customer relations and transparency.	HEXPOL is currently working in four areas of digitization: ▪ of the customer experience ▪ of products and services ▪ of operational processes ▪ of internal support systems

Case studies for each of the global driving forces are presented on the following pages:

10–11 Urbanization
22–23 Mobility
36–37 Health
54–55 Circular economy
66–67 Digitization

GLOBAL DRIVING FORCE: URBANIZATION

Increased urbanization drives growth

Today, more than 4 billion people – more than half of the world's population – live in cities. This trend is expected to continue. By 2050, almost seven out of ten people in the world will be living in cities. With more than 80 percent of global GDP being generated in cities, urbanization can contribute to sustainable growth if managed well. At the same time, urbanization brings major challenges. One of these challenges is to meet the urban areas' ever-increasing need for electricity. Urbanization, with the associated increase in the number of middle-class households and with the cities' energy-intensive goods and services, increases total energy consumption.

New materials as the US modernizes its high-voltage network

The US electricity grid is aging rapidly. The US Department of Energy has estimated that 60-70 percent of power and transformation equipment is 25-30 years old or older. A vigorous process of modernization is now taking place, not only to facilitate a new era for electrified communities or to meet the needs of urbanization, but also to maintain reliability. Investments in the electricity grids have almost doubled since the turn of the millennium, amounting to slightly more than USD 50 billion annually.

HEXPOL Compounding Americas has provided cable manufacturers in and outside the US with high-quality materials for high-voltage cables for many years. A few years ago, an exciting new challenge appeared. An American company who is a world leader in power transmission supplies, sought a partner to assure the quality and reliability of its wide range of advanced insulators. The challenges were several. Getting non-conductive materials, such as silicone, to adhere to glass, very small tolerances in filling complex molds and maintaining competitive prices.

After one year of testing, involving intensive efforts at HEXPOL's R&D center and with field technicians in place at the customer's plants, HEXPOL was able to deliver solutions that met all of the customer's requirements. With new and completely unique recipes for EPDM and silicone, it was possible to assure superior safety and quality for the customer and a long-term contract for HEXPOL. Three years later, the customer chose to renew the contract. The development of these materials has also led to requests from other international manufacturers supplying to the growing energy sector, particularly in Asia.

"The project demonstrates our combined capacity in HEXPOL Compounding Americas. This amounted to real team work, involving everything from sales and development to purchasing, production and field technicians."

Bruce Wynd, Key Account Director HEXPOL Compounding Americas

URBANIZATION – a global driving force for HEXPOL to relate to

Today, 55 percent of the world's population lives in urban areas, a proportion that is expected to rise to 70 percent by 2050. Forecasts show that urbanization, combined with the total growth of the world's population, can add another 2.5 billion people to the world's cities by 2050, with close to 90 percent of the increase occurring in Asia and Africa. The functionality of the smart city requires well-functioning urban flows around goods, services, people, energy and information. The challenges are many, but can be met through investment in sustainable innovations and choices of materials that make assets secure. With production in the Americas, Europe and Asia HEXPOL, benefits from its global presence and tackles increased urbanization with its expertise in unique materials and customer-specific applications in a wide range of areas.

Read more about the global driving forces on the following pages:

22–23 Mobility
36–37 Health
54–55 Circular economy
66–67 Digitization

HEXPOL's value-generating strategies

Vision

HEXPOL's vision is to be a market leader, ranking number one or two, in selected technological or geographical segments. in order to generate growth and shareholder value.

Business concept

HEXPOL's business concept is to operate as a product and application specialist in a limited number of selected niche areas for the development and production of polymer products. HEXPOL aims to be the most attractive partner for customers in key industries, such as the automotive, building and construction and engineering, energy, oil and gas sector, the cable and wire industry, medical technology and material-handling industry, by offering innovative and specialized polymer products and solutions.

Operational strategies

To maintain its long-term profitability and sustainable competitiveness, HEXPOL attaches great importance to the competitiveness of each individual business unit. To attain the Company's vision, the following operational strategies are applied:

Profitable growth

By being the easiest company to do business with in each customer interface, growing within existing and new segments and geographies and by being the leading company in the industry within innovation and product development we are creating profitable growth.

Adding value for our customers

With the best service in the market, cutting-edge expertise in polymer materials and solid knowledge of applications, technical support and constant development, we strengthen our customers' competitiveness in their markets.

Most cost-effective company

Through continuously improved processes, by decreasing costs and eliminate waste, having well-invested production units with a high level of technology and broad-based expertise in a flat and cost-effective organization, we ensure that we are the most cost-effective company.

Efficient supply management

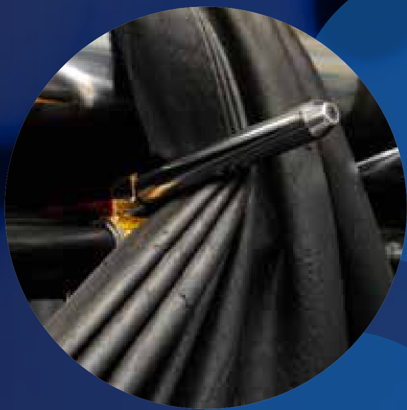
We safeguard efficient supply management by continuously focusing on identifying cost-efficient supplier solutions from which benefits can be derived in terms of volume and technology. Maintaining close cooperation with customers by means of a local presence also generates opportunities to achieve efficient solutions.

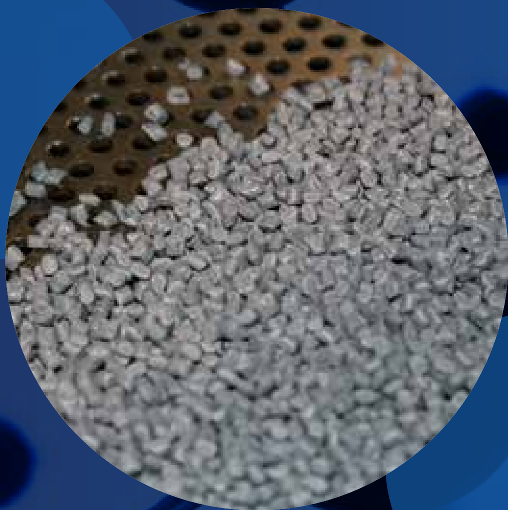
Superior management expertise

Skilled and experienced management teams working on the basis of global coordination and a continuous exchange of experience enable all the units to adapt to the best practice in the Group and the industry. As well, short and prompt decision-making processes and time efficient implementation and boost the organization's capacity.

Responsibility and care

HEXPOL's strategy for achieving sustainable development includes the introduction of environmental management systems, improved energy efficiency, reduced risks arising from chemical products and transparent reporting of the Group's performance regarding environmental and social responsibility. These efforts benefit society, employees, shareholders and the operations alike.





A clear growth strategy

Over the years, HEXPOL has expanded sharply on the basis of both healthy organic growth, as well as strategic acquisitions. Since 2010, 41 units have been acquired and successfully integrated into the operations.

The growth orientation stands firm, with the Board of Directors having set a target for sales growth, adjusted for exchange rate effects, of more than 10 percent annually. The expansion has, at the same time, brought significantly improved operating margins, resulting largely from internal improvement efforts in which all units are benchmarked and compared with each other.

Positioned for organic growth

HEXPOL is positioning itself to benefit from development and growth in its principal markets through new innovations and by expanding in new customer segments. The Group strategy also includes continuing to leverage opportunities arising when rubber compounding manufacturers face the decision of whether to switch from proprietary compounding operations to outsourcing.

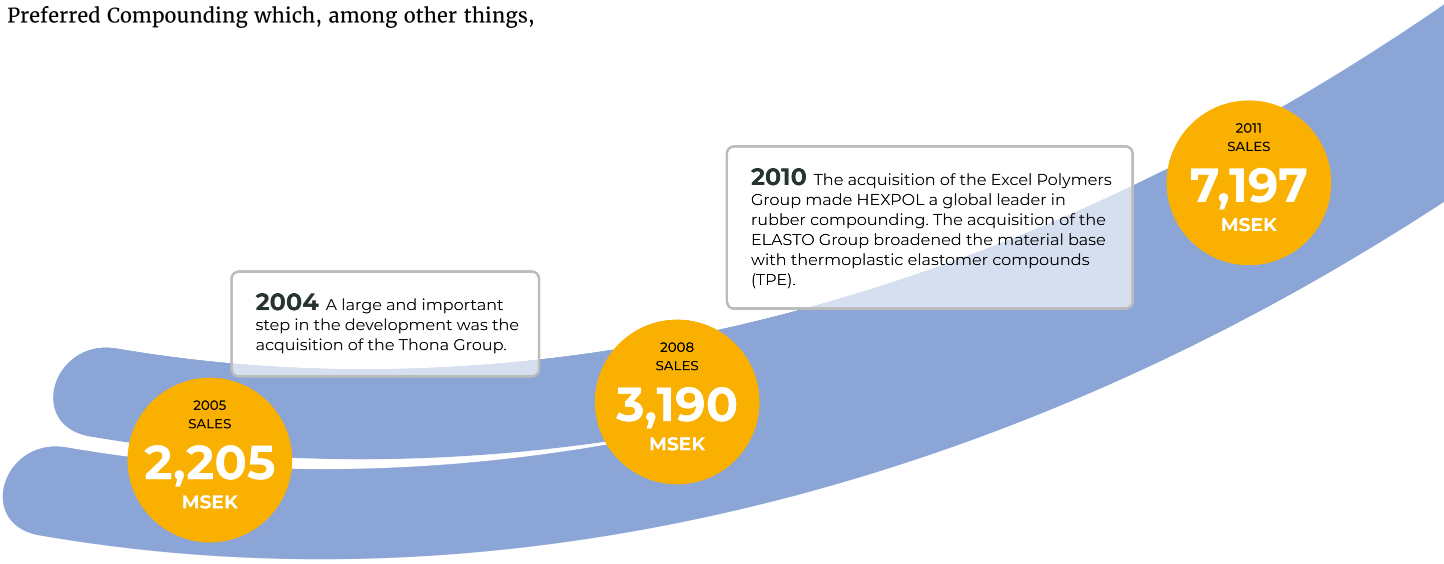
The Group's strategy is also to continue acquiring companies in the polymer field, primarily in current business areas but also including a broadening of application areas, types of material and geography. Potential acquisition targets are monitored continuously in accordance with a distinct acquisition model, whereby attractive targets are analyzed on the basis of a series of strategic parameters. In 2019, HEXPOL acquired Preferred Compounding which, among other things, strengthened HEXPOL Compounding's presence in the US, but also brought increased know-how in materials for the Group as a whole.

The HEXPOL Group has a strong cash flow, a strong financial position and the leadership capacity to capitalize on interesting acquisition opportunities on an ongoing basis.

Growth journey over the years

HEXPOL has its origins in Svenska Gummifabriks AB in Gislaved, a Swedish industrial company established towards the end of the 19th century. Hexagon acquired the company in 1994. In 2008, HEXPOL was distributed to Hexagon's shareholders and listed on Nasdaq Stockholm. Over the years, the operations have experienced a strong growth trend, with sales increasing by 38 percent over the past five years.

The illustration of HEXPOL's growth shows a selection of the more important acquisitions made over the years. Over the past ten years, HEXPOL has acquired a total of 41 units, all of them with complete sales organizations, product-development and manufacturing.



2019
SALES
15,508
MSEK

2019 The acquisition of US Preferred Compounding further strengthens HEXPOL's cutting-edge expertise and adds opportunities in the form of new applications know-how and extended customer base.

2018 The acquisition of Italian MESGO was a strategically important step for HEXPOL in the silicone and fluororubber segments and added new customers.

HEXPOL significantly strengthened its position in growing segments such as the aerospace industry and medical technology with the acquisition of the rubber compounding company Kirkhill Rubber in Long Beach, California.

2015
SALES
11,229
MSEK

2015 The acquisition of RheTech Thermoplastic Compounding strengthened HEXPOL's offering in thermoplastics.

2012 German Müller Kunststoffe was acquired, making HEXPOL one of Europe's leading manufacturers of TPE.

Read about our most recent acquisition, Preferred Compounding, on pages 16–17

STRATEGICALLY IMPORTANT ACQUISITION IN 2019

The acquisition of Preferred Compounding improves the Group's presence in the US and increases its know-how in materials

In July of 2019, HEXPOL acquired Preferred Compounding from the Audax Group, a US Based Private Equity firm. Preferred Compounding is a well-run and profitable advanced rubber compounder in North America. It is a leading provider of proprietary and custom mixed rubber compounds, including strips, slabs, pellets, and calendered sheet end forms. It maintains relationships with a broad set of blue-chip customers across several end markets, such as automotive, general industrial, and infrastructure.

Preferred Compounding has a legacy of technical excellence with a product suite of over 7,500 compounds designed for the most critical applications. Further, approximately 70 percent of the compounds are derived from proprietary or enhanced co-developments serviced by highly strategic relationships.

The acquisition allows HEXPOL to secure global capacity and competence in advanced polymer compounds for our customers. Preferred Compounding brings an especially significant competitive advantage to our customers in the Americas region, with improved supply chain and leading research, development and engineering services. Its high performance elastomer capabilities further strengthens HEXPOL's offerings to the marketplace.

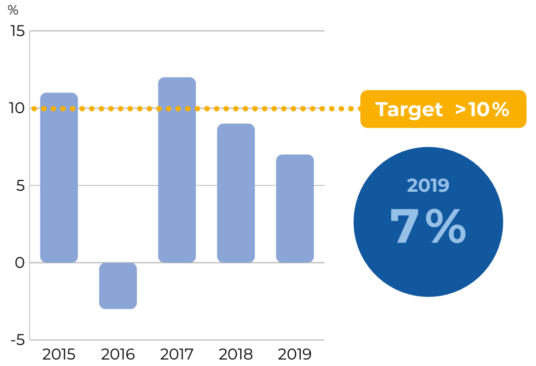
FACTS PREFERRED COMPOUNDING

Sales 2018: approximately 2,400 MSEK
Number of employees: 540 individuals
Number of facilities: 6 – US and Mexico
The operations have been fully integrated into HEXPOL Compounding America's organization.

Targets and outcomes 2019

Clearly-defined financial and sustainability targets demonstrate how the HEXPOL Group generates value for its various stakeholders over time. The targets are well-rooted and have been integrated into the business units of the decentralized organization and their respective targets. The financial targets form the basis for the Group's strategies.

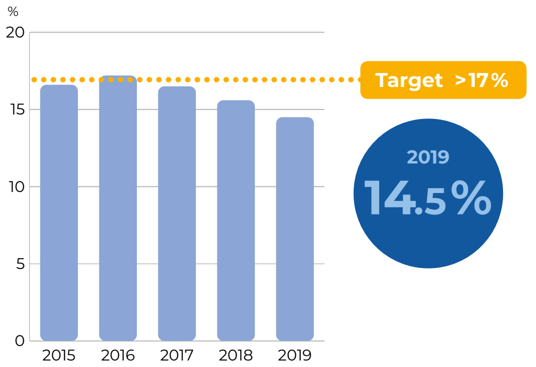
Financial targets[1]



Sales growth[2]

Demonstrates HEXPOL's competitiveness in the market and ability to leverage its strengths and areas of expertise.

2) ADJUSTED FOR EXCHANGE RATE EFFECTS



Operating margin[3]

Shows HEXPOL's capacity to cover operating costs and generate profit for shareholders.

3) ADJUSTED FOR NON-RECURRING ITEMS

Equity/assets ratio

The equity/assets ratio measures HEXPOL's balanced growth.

Comments on 2019

- Adjusted for exchange rate effects, sales grew by 7 percent, of which organic growth was a negative 9 percent, while acquisitions contributed 16 percent.

- The operating margin, adjusted for non-recurring items, was 14.5 percent and lower than in the preceding year.
- Among other things, this was affected by lower organic volumes, acquisitions and changes in the mix.
- General cost inflation had a negative impact.

- The Balance Sheet remained strong and the equity/assets ratio for 2019 was 56 percent.

1) READ MORE ABOUT DEFINITIONS ON PAGE 98.

Sustainability targets*

Comments on 2019

Energy

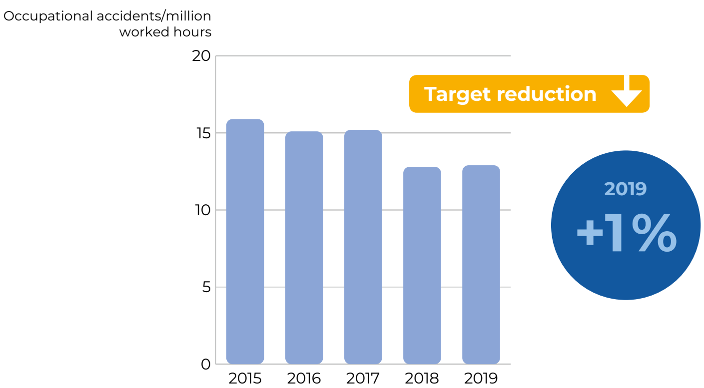
The key figure GWh/sales shows how efforts to increase energy efficiency are developing.

- Work involving energy surveys and measures to increase efficiency continued.
- The installation of energy-efficient production equipment, LED lighting, infrastructure and energy monitoring equipment contributed to more efficient energy consumption.

Climate

The key figure tonnes CO_2e in relation to sales shows how efforts to reduce the impact on the climate from energy consumption are developing.

- The use of biofuels, purchasing of green electricity and energy optimization are reducing emissions of greenhouse gases.
- These measures are partly being counteracted by increased operations in countries where purchased electricity is derived from fossil sources.



Safe work environment

The key figures accidents resulting in absence from work LWC/million hours worked shows how preventive work environment efforts are developing.

- The preventive measures implemented in the operations in the US and Mexico have had a positive impact.
- Following the improvement in accidents frequency in 2018, the outcome of the year was basically unchanged. We are continuing our efforts to reduce the number of accidents.

* READ MORE ABOUT HEXPOL'S SUSTAINABILITY-RELATED TARGETS ON PAGES 47–48.

HEXPOL's contribution to increased value for stakeholders

HEXPOL is a world-leading polymer group with strong global market positions. With cutting-edge expertise in polymer materials and solid know-how in applications, we generate value for our stakeholders.

Customers

In addition to product-specific requirements such as the pace of innovation and functionality, many customers impose demands in terms of codes of conduct and certified environmental management systems. Other requirements concern the phasing out of hazardous chemical substances and sustainability issues being implemented in the supply chain. Interest in products containing bio-based and/or recycled raw materials increased in 2019. The HEXPOL Group's sustainability efforts are assessed regularly by customers.

With cutting-edge expertise in polymer materials and solid knowledge of applications, technical support and constant development, we strengthen our customers' competitiveness in their markets.

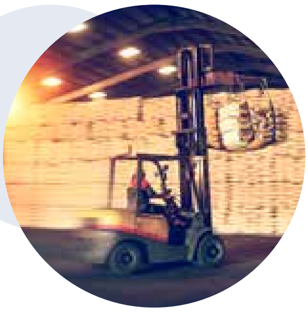
HEXPOL is convinced that being ambitious in sustainable development reinforces its relationship with customers. In 2019, customer surveys and audits were conducted at 23 (20) facilities. HEXPOL received positive reviews regarding its efforts.

Employees

It is important that HEXPOL retain and develop employees, and also attract new ones. For employees, health, safety, financial compensation, personal development, social conditions and good business ethics are important.

During the year, HEXPOL paid 2,069 MSEK (1,785) in salaries to employees. Following an improvement in 2018, the accident rate remained basically unchanged in 2019. The number of training hours was 171,400 (118,200).

2,960 (3,200) employees participated in development interviews. Surveys regarding employee satisfaction in the workplace gave good results.



Suppliers

HEXPOL strives for open and long-term relationships with its suppliers. The objective is to guarantee suitable quality, financial stability and active sustainability work for both parties.

During 2019, the guidelines on sustainable development for suppliers (Supplier Sustainability Guideline) were updated. In 2019, more than 500 suppliers were evaluated. An updated version of the guidelines will be presented in 2020.

Shareholders

For our shareholders, growth and dividends are central in generating value. The integration of sustainability issues in the business strategy reduces risks and generates business opportunities through the development of environmentally adapted products, resource-efficient production, as well as investments in environmentally adapted technology.

The dividend to the shareholders amounted to 774 MSEK (671). Over the past five years, HEXPOL's Class B shares have had an average total return of about 9 percent annually. During the year, dialogues were conducted with investors and the Group was evaluated by several independent institutions.

Society

Social commitment is an important aspect and is expected by local communities in which the Group operates. As a global company, the Group is expected to take measures contributing to national and global goals for sustainable development.

HEXPOL is affiliated to the UN Global Compact and work continued on the UN's global goals for sustainable development. At the local level, the Group collaborated with schools and universities and contributed to healthcare, sports and culture. HEXPOL's tax expense for 2019 amounted to 466 MSEK (515).

Authorities

Compliance with legal requirements is essential for HEXPOL.

In 2019, no serious violations of laws and regulations occurred.

GLOBAL DRIVING FORCE: MOBILITY

Groundbreaking partnerships for goods mobility

Every day, around the world, more than 100 million parcels are delivered to all sorts of people, from individuals who have made an exciting online purchase, to business-critical spare parts for expensive production lines. The mobility of goods is growing rapidly and, already in 2018, the number of parcels dispatched reached an incredible 87 billion.

"We are very pleased to be able to meet the high standards demanded by IAMROBOTICS for its Swift series. Pioneering work in every detail."

Michael Scoon, Director Global Sales and Marketing, Stellana

Expanding e-commerce – estimated at around SEK 50,000 billion for 2021 – and the consequent demand for "last mile" deliveries are driving the trend. To meet end-customers' demands, including timeliness, climate footprint and cost, the product must always be optimally positioned in the logistics network. Robotization and automation are becoming an increasingly important factor in major players' opportunities to meet the demands of end-customers. The market for warehouse automation is expected to double to around SEK 270 billion by 2025, with the markets for AGVs (automated guided vehicles) and AMRs (autonomous mobile robots) growing fastest within the segment.

Stellana, with operations in the Americas, Europe and Asia, is a company within the HEXPOL Group that supplies the material handling segment's largest OEMs with wheel systems for a wide range of warehouse vehicles. In recent years, in-house development efforts and partnerships with innovation companies have led Stellana into a new and fast-growing segment – automation and robots – where wheel systems play a major role.

IAMROBOTICS and Stellana = pioneers

Whether a robot follows a predetermined route or makes real time decisions, the tolerances are small. Over time, wear on the tires can cause the robot to simply be sent to the wrong place and even to retrieve the wrong item. Stellana's wheels are designed and manufactured according to tight tolerance specifications (+/– .005 TIR), ensuring that each wheel is perfectly round and that the location of the equipment can therefore be ascertained.

Vibration damping, low rolling resistance, high load/speed capacity and protection of flooring from wear and sensitive equipment are other important features in ensuring that high-precision robots perform as expected.

An interesting example of development in automation, where Stellana is playing its part, takes the form of a partnership with IAMROBOTICS, which, under the name Swift, has introduced a groundbreaking Cobot (Collaborative Robot) that is able, using a Fanuc link arm, to pick goods ordered by customers directly from warehouse shelves. By 2025, robots like Swift are expected to account for 25 percent of growth in warehouse automation.

MOBILITY – a global driving force for HEXPOL to relate to

Mobility for people, goods and data is changing at a rapid pace and urban mobility represents an enormous challenge but also major opportunities, and it is not only in goods mobility that growth is accelerating.

Global demand for passenger mobility in urbanized areas will double by 2050. At the same time, individual daily journeys have increased significantly since 2015, exerting increased pressure on existing mobility systems. Strong trends around MaaS (Mobility as a Service) such as car pools, car sharing and innovative public transport based on demand, as well as self-driving vehicles and car electrification, generate uncertainty and opportunities alike within the automotive industry. HEXPOL holds strong positions with global customers in the aviation, automotive and public transport segments, as well as in unique materials for critical applications. Electrification and lower weight for lower energy consumption are examples of where HEXPOL's advanced materials are increasing in importance.

Read more about the global driving forces on the following pages:

10–11 Urbanization
36–37 Health
54–55 Circular economy
66–67 Digitization

Group summary

HEXPOL is a world-leading polymer group with strong global market positions and customers who impose rigorous demands on quality, security of supply and research and development.

The Group's strengths are its locally rooted entrepreneurial spirit, excellent market awareness, cutting-edge knowledge and development capabilities in advanced polymers and its global platform.

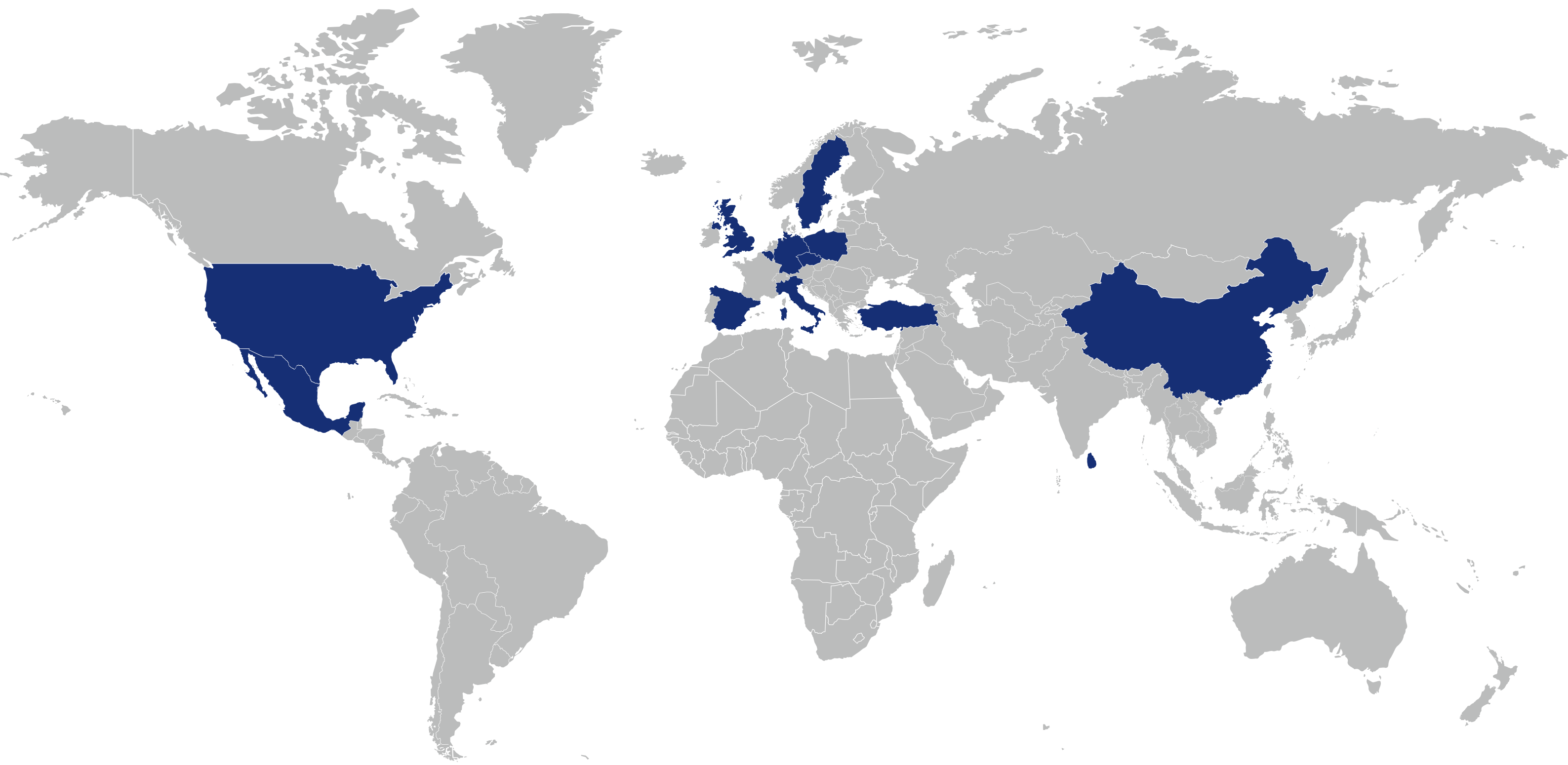
The Group comprises two business areas, HEXPOL Compounding and HEXPOL Engineered Products, which, between them, cover eight product areas. Together, they generate annual sales of 15.5 billion SEK and have 5,055 employees at 52 units in America, Europe and Asia.

HEXPOL's organization is structured to facilitate short and prompt decision-making processes, with clear, decentralized responsibility. Key functions include coordinated work in innovation and knowledge sharing about materials and markets.

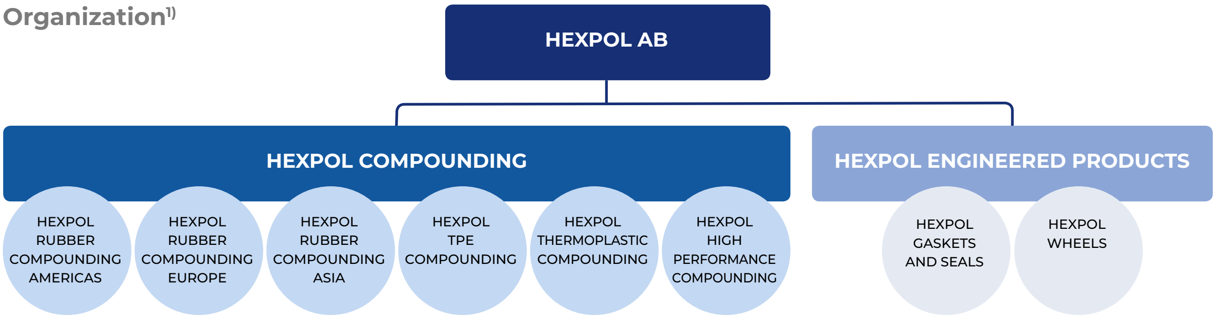
Most of the plants are relatively new and well-invested. The high technology level, combined with far-reaching production and technological coordination, provides cost-effectiveness, high and uniform quality and the ability to smoothly relocate production among the units.

With its batch production processes, HEXPOL's flexible production organization can be adapted to serve customers optimally and to adjust capacity to demand.

HEXPOL's global presence



Organization[1]



1) Change in organization effective from 1 January 2020.

HEXPOL COMPOUNDING

HEXPOL Compounding is one of the world's leading suppliers in the development and manufacturing of high-quality advanced polymer compounds for demanding applications and demanding end users. The business area comprises six parts: HEXPOL Rubber Compounding, which is divided into three geographical regions (Americas, Europe and Asia), as well as HEXPOL TPE Compounding, HEXPOL Thermoplastic Compounding and HEXPOL High Performance Compounding.

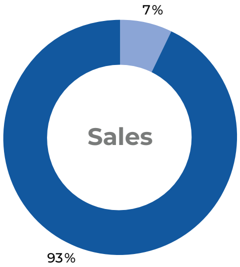
HEXPOL Compounding's market is global and the largest end-customer segments are the automotive and engineering industries, followed by the construction sector. Other important customer segments are the transport sector, the energy, oil and gas sector, the consumer sector, the cable and wire industry and manufacturers of medical technology.

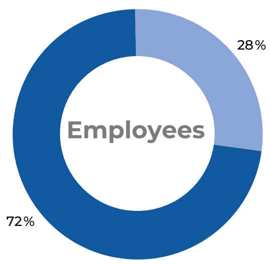
Customers are manufacturers of polymer products and components who impose rigorous demands on quality, global delivery capacity and product development.

SALES 2019
14,465 MSEK
(12,745 MSEK)

OPERATING PROFIT[2] 2019
2,109 MSEK
(2,006 MSEK)

NUMBER OF EMPLOYEES 31 DEC 2019
3,665
(3,211)





HEXPOL COMPOUNDING
HEXPOL ENGINEERED PRODUCTS

HEXPOL ENGINEERED PRODUCTS

HEXPOL Engineered Products holds global strong positions in gaskets for plate heat exchangers, as well as in polyurethane, rubber and plastic wheels for forklifts and material handling, and in extruded rubber profiles. The operations are organized into the two product areas: HEXPOL Gaskets and Seals and HEXPOL Wheels.

Within its niche areas, HEXPOL Engineered Products operates in the global market with a keen focus on discerning customers and advanced applications.

Customers are usually major global OEM manufacturers with market leading positions and for whom HEXPOL's products are frequently of vital importance for the quality and service life of the finished product.

SALES 2019
1,043 MSEK
(1,025 MSEK)

OPERATING PROFIT 2019
133 MSEK
(144 SEK)

NUMBER OF EMPLOYEES 31 DEC 2019
1,390
(1,424)

2) Adjusted for non-recurring items.

BUSINESS AREA: HEXPOL COMPOUNDING

World-leading in advanced polymer compounds

The HEXPOL Compounding business area is one of the world's leading suppliers in the development and manufacturing of advanced polymer compounds. Customers are manufacturers of polymer products and components who impose rigorous demands on quality, improved properties and global delivery capacity.

HEXPOL Compounding's market is global and the largest end-customer segments are the automotive and engineering industries, followed by the construction sector. Other important customer segments are the transport sector, the energy, oil and gas sector, the consumer sector, the cable and wire industry and manufacturers of medical technology.

With operations in the Americas, Europe and Asia, HEXPOL Compounding assists customers across the globe in building long-term partnerships through advanced technical competence and a strong productportfolio.

A globally coordinated organization

HEXPOL Compounding's operations comprise 44 units, most of which are fully established organizations with their own sales, product development and manufacturing. The units are divided into three geographic regions, the Americas, Europe and Asia, as well as into the product areas HEXPOL TPE Compounding, HEXPOL Thermoplastic Compounding and HEXPOL High Performance Compounding. The product areas are strongly coordinated and cooperate with one another in key areas including:

- Research and development (coordination between the units and development of new materials and products)
- Global supplier agreements (strategic supplier choices, price negotiations)
- Engineering (design of equipment)
- Communication and digitization

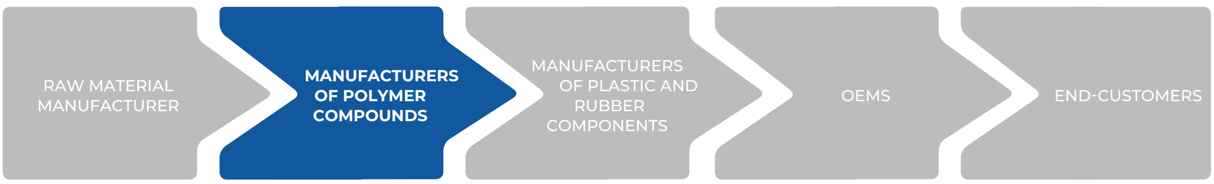
Production is primarily customer order-based and focused on a considerable number of selected raw materials that are largely subject to price fluctuations. Accordingly, pricing is renegotiated several times a year. The key polymer compound formulas are often developed in close cooperation with customers and unique expertise is required to achieve optimal product qualities. In most cases, the formulas are HEXPOL's property.

A complete offering

Polymer compounds are manufactured through highly technological processes that enhance the properties and performance of the polymers by joining and blending them with various components, such as additives and stabilizers, to create new and tailor-made material combinations. Whether a customer needs flame retardant, oil resistant, UV stable or medical technology approved polymer materials, HEXPOL Compounding offers solutions that precisely match application requirements.

HEXPOL Compounding primarily focuses on three important areas for polymer compounds: rubber compounds (high-performance elastomers, such as silicone and fluoro-carbon rubber), thermoplastic elastomer-compounds (TPE) and thermoplastic compounds.

HEXPOL Compounding in the value chain



HEXPOL Rubber Compounding

HEXPOL Rubber Compounding is a global leader in advanced rubber compounds with an extensive product range for a wide range of customer segments and application areas:

- Rubber compounds – development of custom mixtures and formulas.
- Specialty Products – a comprehensive range of custom and standardized chemical additives and colour concentrates. Curing envelopes and tubes for retreading. Products with specific properties in terms of, for example, high temperatures, cooling, static electricity and electrical insulation.

The rubber compounds are processed further by customers through, for example, extrusion, injection moulding and compression moulding to give the components their final shape. Continuous or discontinuous vulcanization gives the end-products their elastic properties.

The production facilities have advanced, computerized quality assurance systems to safeguard efficiency and quality. HEXPOL Compounding is continuously advancing the technology behind the filtration methods that are built into the process flow so that extremely pure rubber compounds are produced. With advanced technologies, the plants can easily adapt their processes to meet specific customer requirements, since production takes place in a closed process for each batch.

HEXPOL TPE Compounding

Thermoplastic elastomer compounds bridge the gap between rubber and plastic. They share several of the characteristics of rubber, such as flexibility and softness, but they also have the versatility, recyclability and processing advantages found in plastics.

The TPE family includes a number of material classes, each based on different chemistries and technologies and with different characteristics and end-user applications. The product area HEXPOL TPE Compounding offers one of the strongest portfolios of TPE compounds in the marketplace covering the following technologies:

- Styrenic block copolymers (TPE-S or TPS)
- Polyolefin compounds (TPE-O or TPO)
- Elastomeric compounds (TPE-V or TPV)
- Thermoplastic polyurethanes (TPE-U or TPU)

In recent years, a range of bio-based TPE compounds and compounds based on recycled TPE has also been introduced to meet the increased demand for sustainable materials that reduce the use of fossil resources.

A number of the markets, such as medical technology, toys and food, require the highest level of production control, material traceability and consistency.

HEXPOL invests in high-quality compounding technology and supporting sub-systems, while also operating extremely versatile processes that have enabled the development of a comprehensive product offering in close collaboration with customers.

HEXPOL Thermoplastic Compounding

The manufacturing process is a continuous, automated process that provides flexibility and continuity to ensure the highest standards of efficiency and quality and that meets the market's demand for problem-solving capacity regardless of volume.

The product area HEXPOL Thermoplastic Compounding offers a broad range, in which each product group has its own portfolio of recipes, customized for specific OEMs, with distinct properties and specific requirements within the following technologies:

- Glass and mineral reinforced and co-reinforced PP (polypropylene) compounds.
- TPO (thermoplastic polyolefin) compounds.
- Blow molded and extrusion graded PP compounds.
- Recycled PP-graded compounds.
- RheVision natural fibre-reinforced compounds.
- Polyolefin and engineered resin-based colour concentrates and additives.

HEXPOL High Performance Compounding

In January 2020, the HEXPOL Compounding business area grew with the addition of the new HEXPOL High Performance Elastomers product area. At this stage, the product area mainly comprises MESGO Group's product groups in high-performance elastomers, such as silicone and fluoro-carbon rubber. The purpose of the new product area is to pool forces in these materials and benefit from shared expertise and customer contacts to build a platform for global growth.

Its principal customer segments are industry, consumer products, transport and automotive. Examples of applications containing silicone are insulators for high voltage power transmission, where the material is required to be weather resistant, electrically insulating, able to withstand sizable shifts in temperature, and lightweight. Examples of applications in fluoro-carbon rubber are seals for highly demanding environments requiring high chemical resistance and able to withstand both high and low temperatures.

Leading global market positions

The Group's sales to the automotive industry amount to around 36 percent (36) of total sales and include rubber compounds for products such as sealing strips for doors and windows, hoses and gaskets and for example reinforced polypropylene compounds. For many car manufacturers, particularly in the premium segment, high-quality sealing strips for example represent a key component since such strips often contribute to the sense of quality conveyed by a quiet interior.

The major manufacturers in the automotive industry and their system suppliers operate globally. For this reason, HEXPOL Compounding, who focuses on global delivery capabilities for the market's best products, offering identical quality regardless of the production unit, is a good partner.

The number of light vehicles manufactured is expected to rise in the coming years, primarily as a result of increased demand in growth markets in Asia where many automotive manufacturers are increasing production. For system suppliers, this trend, combined with requirements for proximity as well as export and import tariffs, is leading customers to demand that HEXPOL follow suite and offer manufacturing in these markets.

A clearly growing niche, in which HEXPOL's products contribute to improved weight performance, is the electric car market. Other attractive niches in the transport sector, with growth opportunities for HEXPOL, are trains, aviation and the space industry.

The product area HEXPOL TPE Compounding's market is growing well, with interesting and growing customer applications in medical technology, general industry, the consumer sector and automotive. HEXPOL is well positioned in the market with capacity in also Asia and North America.

The market for the product area HEXPOL Thermoplastic Compounding is also growing, with interesting and growing customer applications, particularly for reinforced polypropylene compounds (PP) and polyamide compounds (PA).

Other major players and international manufacturers of rubber, TPE and thermoplastic compounds are AirBoss, Teknor Apex, Dynamix, PTE, Multibase, GLS, Kraiburg, A. Schulman and Washington Penn. There is also a large number of smaller, locally active manufacturers and, within rubber compounds, also customers with their own compounding operations.

Small and medium-sized manufacturers of components find it difficult to maintain proprietary production of rubber compounds long term, choosing therefore to outsource some of this production to HEXPOL Compounding, among others, which have substantial opportunities to offer a competitive global concept and cost-efficient manufacturing.

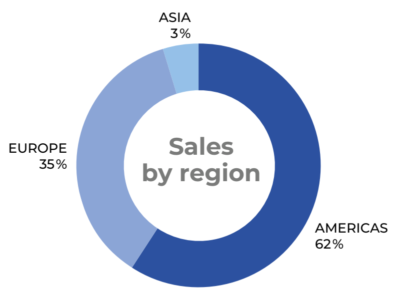
Four strategic priorities

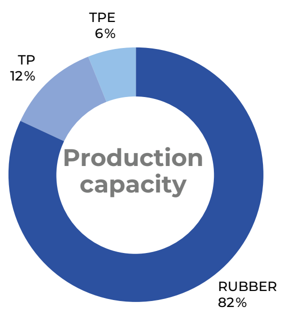
The concept "Think globally, act locally" describes accurately how HEXPOL Compounding's business model works. Four strategic priorities act as the organization's guiding lights:

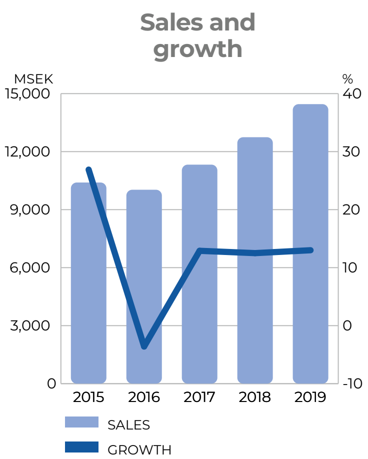
- *Close relations with customers* – HEXPOL focus especially on cooperation with customers operating globally, for example customers within the automotive industry. HEXPOL Compounding has a well-balanced customer structure that includes substantial global deliveries to Japanese, German, American and Korean system suppliers to the automotive industry.
- *Focus on innovation and cost efficiency* – The operations focus on production and sales of high-quality products developed in close cooperation with discerning customers. The business area aims consciously to develop products that improve the total production costs of customers.
- *Further growth in existing and new markets* – HEXPOL Compounding is well-positioned to increase its shares in existing markets and leverage its strong global presence and development capability to increase volumes in new markets.
- *Continuous improvements* – HEXPOL Compounding works continuously to improve the processes used in the organization. One example is the internal benchmarking of production data, which creates a strong drive for operating units to pursue continuous improvements through exchanges of experience.

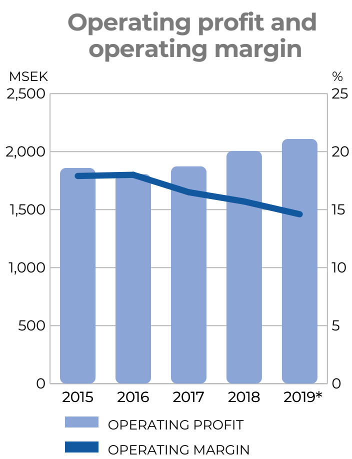
Significant events in 2019

- HEXPOL Compounding's sales increased by 13 percent to 14,465 MSEK (12,745) in 2019. Operating profit, adjusted for non-recurring items, increased 5 percent to 2,109 MSEK (2,006), meaning that the corresponding operating margin amounted to 14.6 percent (15.7). Operating profit, including non-recurring items, amounted to 1,910 MSEK (2,006), with a corresponding operating margin of 13.2 percent (15.7).
- In July, Preferred Compounding was acquired, a significant rubber compound manufacturer in North America. With about 540 employees at six units in the US and Mexico, Preferred Compounding strengthens our global positions in advanced polymer compounds with an improved supply chain, cutting-edge expertise in polymer materials and solid knowledge of applications. Read more about the acquisition on pages 16–17.
- As a stage in the integration of Preferred Compounding, a restructuring project has been started to optimize the operations and derive cost synergies. As a consequence, two production units were closed in the US in the fourth quarter of 2019.

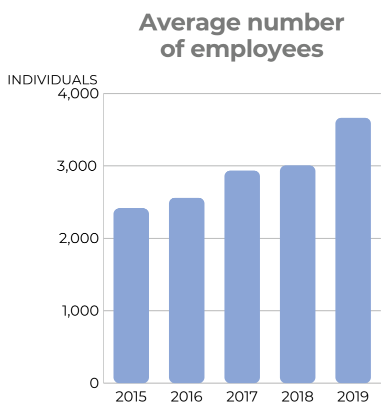








*Adjusted for non-recurring items.



Operating units

Americas	Location		TON
HEXPOL Compounding – Statesville	Statesville, USA	91	20,000
GoldKey Processing	Middlefield, USA	198	40,000
HEXPOL Compounding – Burton	Burton, USA	270	55,000
HEXPOL Compounding – Dyersburg	Dyersburg, USA	213	136,000
HEXPOL Compounding – Jonesborough	Jonesborough, USA	112	50,000
HEXPOL Compounding – Kennedale	Kennedale, USA	83	18,000
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	132	24,600
HEXPOL Compounding Querétaro	Querétaro, Mexico	188	53,000
Kardoes Rubber	La Fayette, USA	16	59,000
HEXPOL Silicone Compounding	Mogadore, USA	15	7,500
VALLEY Processing	City of Industry, USA	91	56,000
Kirkhill Rubber	Long Beach, USA	94	48,000
RheTech Compounding	Whitmore Lake, USA	106	65,000
RheTech Compounding	Fowlerville, USA	37	38,000
RheTech Colors och HEXPOL TPE North America	Sandusky, USA	58	4,500
Preferred Compounding – Barberton	Barberton, USA	94	20,300
Preferred Compounding – Huntington	Huntington, USA	90	22,700
Preferred Compounding – Whitewater	Whitewater, USA	59	8,000
Preferred Compounding – Tallapoosa	Tallapoosa, USA	150	34,100
Preferred Compounding San Luis Potosi	San Luis Potosi, Mexico	153	36,300
Robbins	Muscle Shoals, USA	50	–

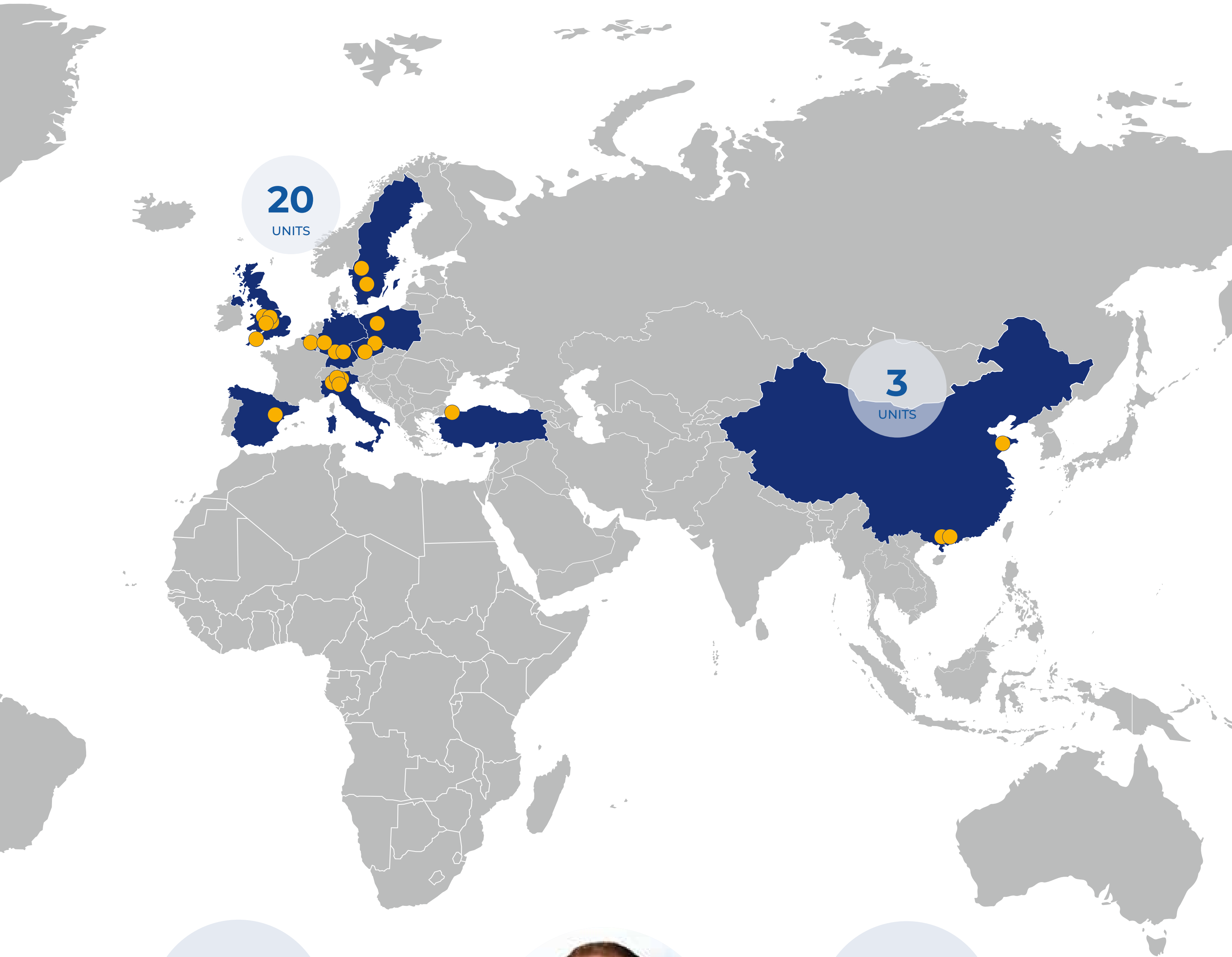
Europe			
HEXPOL Compounding Belgium	Eupen, Belgium	74	20,000
HEXPOL Compounding Germany	Hückelhoven, Germany	68	35,000
HEXPOL Compounding Sweden	Gislaved, Sweden	67	19,000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	119	35,000
HEXPOL Compounding UK	Manchester, UK	55	5,500
Flexi-Cell	Manchester, UK	12	1,200
Berwin Rubber	Manchester, UK	95	30,000
HEXPOL Compounding Spain	Barcelona, Spain	88	30,000
Berwin Industrial Polymers	Lydney, UK	76	21,000
HEXPOL Compounding Lesina	Lesina, Czech Republic	121	35,000
MESGO S.p.A.	Gorlago, Italy	47	10,000
MESGO S.p.A.	Carobbio degli Angeli, Italy	54	15,000
MESGO IRIDE COLORS S.r.l.	Garlasco, Italy	45	8,000
3A MCOM S.r.l.	Grigno, Italy	18	20,000
MESGO POLSKA Sp. z o.o.	Tomaszów Mazowiecki, Poland	17	3,000
MESGO ASIA KAUÇUK	Şekerpinar, Çayirova, Turkey	10	2,000
HEXPOL TPE Germany Plant 1	Lichtenfels, Germany	47	10,000
HEXPOL TPE Germany Plant 2	Lichtenfels, Germany	100	25,000
HEXPOL TPE Sweden	Åmål, Sweden	78	20,000
HEXPOL TPE UK	Manchester, UK	48	13,000

Asia			
HEXPOL Compounding Qingdao	Qingdao, China	63	20,000
HEXPOL Compounding Foshan	Foshan, China	52	20,000
HEXPOL TPE Compounding Foshan	Foshan, China	11	5,500

Ken Bloom

PRESIDENT HEXPOL COMPOUNDING AMERICAS

HEXPOL Compounding's global presence



Ralph Wolkener

PRESIDENT HEXPOL COMPOUNDING EUROPE/ASIA OCH PRESIDENT HEXPOL TPE COMPOUNDING

Carsten Rüter

PRESIDENT HEXPOL COMPOUNDING EUROPE/ASIA, HEXPOL COMPOUNDING GLOBAL PURCHASING/ TECHNOLOGY OCH HEXPOL TPE COMPOUNDING

Jan Wikström*

PRESIDENT HEXPOL THERMOPLASTIC COMPOUNDING

* Jan Wikström was appointed President HEXPOL Thermoplastic Compounding March 23, 2020.

BUSINESS AREA: HEXPOL ENGINEERED PRODUCTS

Strong, global positions in niche areas

HEXPOL Engineered Products holds strong global positions in gaskets for plate heat exchangers and polyurethane, rubber and plastic wheels for forklifts and material handling. The business area's customers are usually major global OEM manufacturers with market leading positions and for whom HEXPOL's products are frequently of vital importance for the quality and service life of the finished product. Technical competency and long-term relations are of major importance for both parties.

A globally coordinated organization

The business area's manufacturing processes are coordinated and standardized, and the LEAN concept is applied successfully in all production facilities, safeguarding the same high product quality regardless of the production plant. All production facilities also work online in the shared business system, resulting in significantly reduced internal lead times and less administration.

The product area HEXPOL Gaskets and Seals has production units in Sweden (Gislaved) and in Asia (Bokundara, Sri Lanka and Qingdao, China). All plants are modern and incorporate local expertise in production and logistics development.

The product area HEXPOL Wheels has production facilities in Sweden (Laxå), the US (Lake Geneva, Wisconsin) and in Asia (Horana, Sri Lanka and Qingdao, China), which are all well-suited to the local market conditions. The unit in Sri Lanka focuses predominantly on exports to Europe, the US and Asia.

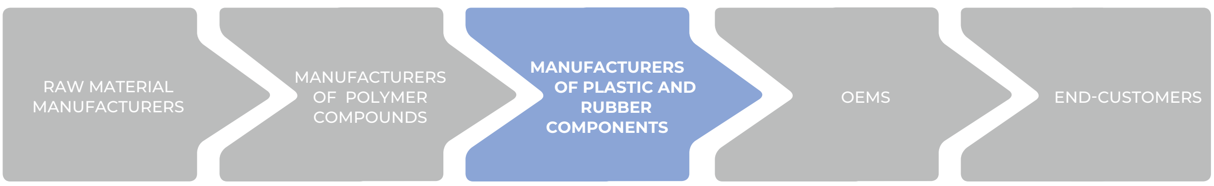
Strong product offerings for demanding customers

HEXPOL Gaskets and Seals is a product specialist for the manufacture of rubber gaskets for plate heat exchangers. The technology content is high, and the end product is characterized by high quality requirements. The gaskets consist of rubber and are delivered in a variety of sizes from a few decimetres in length up to several meters depending on the plate heat exchanger's size. The parameters that determine the choice of gasket type and rubber material are temperature, pressure and media. Performance of the gasket is dependent on the composition of the rubber material and the geometric design of the gasket. Both factors are critical to the service life of the gasket.

HEXPOL Gaskets and seals' technological responsibility is to develop unique material properties combined with efficient manufacturing processes that meet the exacting demands of the market in terms of quality and cost efficiency.

The unit in Sweden conducts research and development in new rubber compounds. Development is being driven by and towards withstanding higher temperatures and pressures, more aggressive external media and by exacting demands for cost-efficiency in the refinement process. All the constituent rubber compounds needed for manufacturing within the product area are manufactured adjacent to the unit in Sweden. This ensures that the input material has the same properties and that the rubber gasket has the same final properties.

HEXPOL Engineered Products in the value chain



HEXPOL's machinery is highly standardized among the units, providing flexibility and allowing for easy shifts in production among the units, for example during production peaks. Production is tool-specific, where every tool creates a unique gasket type. The product area HEXPOL Gaskets and Seals manufactures most of the tools that it uses.

The product area HEXPOL Wheels offers a complete range of wheels for electric-powered warehouse and hand pallet forklifts and castor wheel applications. HEXPOL Wheels produces five types of quality products: polyurethane wheels, thermoplastic wheels, rubber wheels and tires, solid rubber tires, and various special products comprised of the materials previously mentioned.

The global forklift market is highly differentiated in terms of product requirements and the selection of materials. In the European market, Vulkollan™, licensed by Covestra, is the market leading polyurethane through its durability and ability to cope with high loads. HEXPOL Wheels is one of the leading manufacturers of Vulkollan™ wheels in Europe.

In other markets, polyurethane is used as a generic term and HEXPOL Wheels has an extensive selection of various material types. HEXPOL Wheels is on the cutting edge in terms of developing wheels for forklift models in Europe, the US, and in Asia. A contributing factor in design success is access to advanced testing equipment to simulate realistic wear and various types of strain.

HEXPOL Wheels' size also creates leverage in the new development of, and access to, a highly extensive global product portfolio. Considerable emphasis is placed on the control and handling of raw materials, which are purchased from certified suppliers. The production process is real-time monitored and quality controls are conducted at several phases during the process. The machinery is continuously upgraded and is highly automated.

Leading global market positions

The product area HEXPOL Gaskets and Seals is global market leader in gaskets for plate heat exchangers. Customers are mainly leading global OEM manufacturers of plate heat exchangers in Europe, the US and Asia.

The Asian market, and primarily the Chinese market, has continued to grow faster than the rest of the world and is today of significant size. The international OEMs occupy a strong position in China and take advantage of their significantly high expertise and product quality. HEXPOL Gaskets and Seals' production units and distribution centres are strategically well placed in Europe, Asia and North America.

Energy prices and an increased focus on reducing negative environmental impacts are driving market growth through increased demand for energy recovery and generation, as well as the production of alternative fuels.

General GDP growth also drives demand in, for example, comfort (cooling/heating) as well as food and beverages. Plate heat exchangers are used in these areas, and HEXPOL Gaskets and Seals have the benefit of working together with all major OEM manufacturers of plate heat exchangers.

The market for gaskets for plate heat exchangers is dominated by a limited number of major players, among whom HEXPOL Gaskets and Seals is a market leader. The largest competitors are the family owned company TRP and the Trelleborg Group. A few OEM manufacturers of plate heat exchangers also have proprietary gasket production operations.

The global forklift wheels market has regional differentiation due to varying design requirements, material preferences, and quality standards. The market is dominated by large global manufacturers; however, there are a number of small local players, mainly in Asia.

HEXPOL Wheels is the only forklift wheel manufacturer with production units in Europe, North America, and Asia alike. With its global presence, HEXPOL Wheels is well-positioned to capture additional market shares through its localized manufacturing and engineering support.

HEXPOL Wheels operates in the expansive market for wheels and castor wheels for electric and hand pallet forklifts. The castor wheel market is more diversified with a few major players and many local manufacturers.

The market for polyurethane wheels is dominated by roughly ten manufacturers, of which HEXPOL Wheels is among one of the leading companies. The primary competitors in the European market are Räder-Vogel and Wicke; both of which are family owned. Together with HEXPOL's Stellana US, Thombert and Superior are the largest players in the US market. Numerous minor wheel manufacturers are active on the local level in both markets.

This market is dominated by few major players in Europe and North America and several fast-growing operators in China. The aftermarket segment for forklift wheels also increased and is dominated by OEM forklift manufacturers and independent distributors.

Strategic priorities for competitiveness

HEXPOL Engineered Products continues its systematic focus on LEAN and synergies between the operations units. The production development programme for developing and streamlining the business area's production system has now been implemented in all production units.

The objective for product area HEXPOL Gaskets and Seals is to be the primary supplier to all OEM manufacturers of plate heat exchangers. The market for gaskets for plate heat exchangers is growing long-term due to increased demand for energy efficient solutions.

HEXPOL Gaskets and Seals focuses on developing new markets in Asia and North America continues.

The product area carefully monitors market developments and can quickly expand its capacity when needed.

The product area HEXPOL Wheels continues to optimize its operations. The establishment of a distribution centre in Europe for servicing the aftermarket has enabled HEXPOL Wheels to reduce the time to market while drawing closer to the end user, in accordance with the concept "Think globally, act locally".

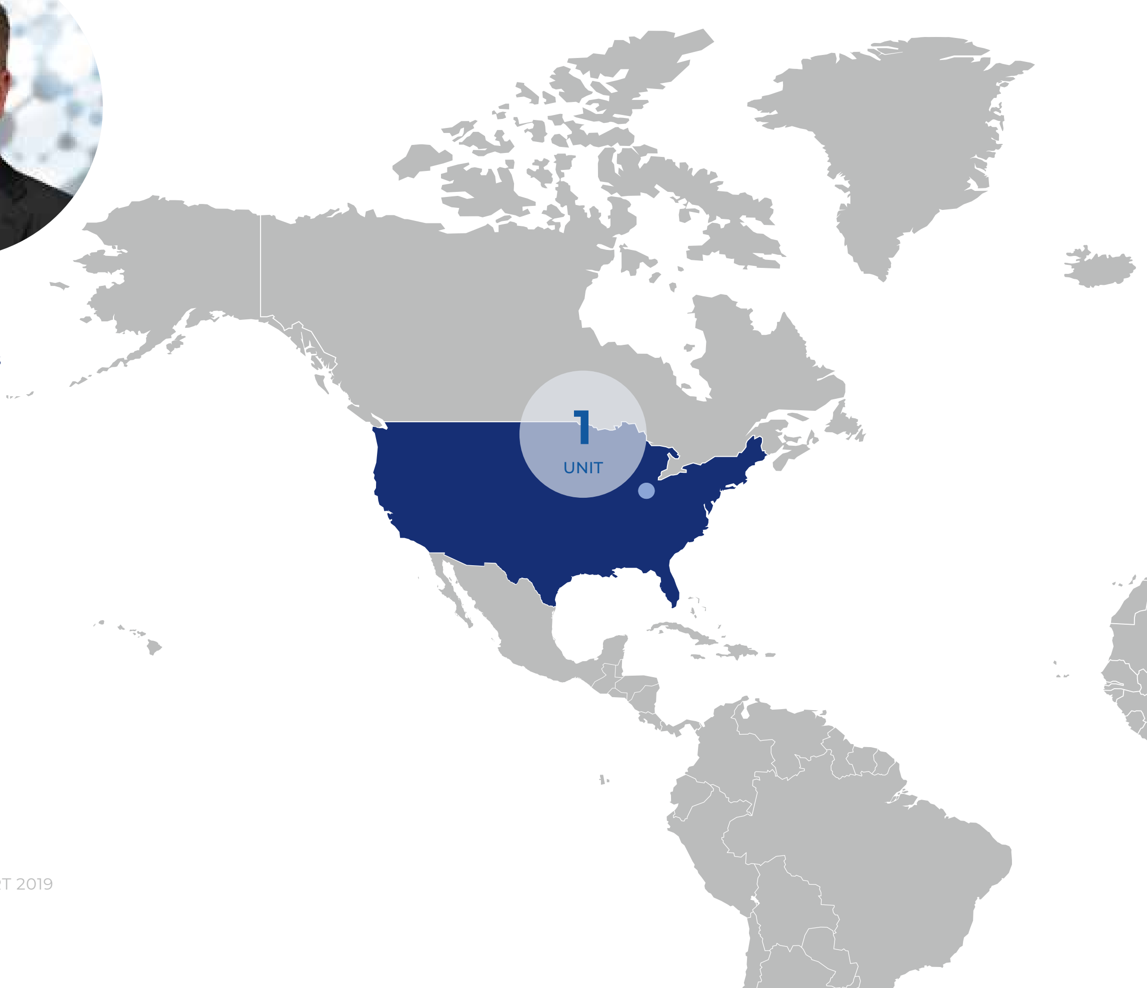
The assessment that the currently fragmented wheel market will enter a consolidation phase stands firm. HEXPOL is well positioned to take an active role in any structural projects. Continued investments in customer service and product development are critical factors for success.

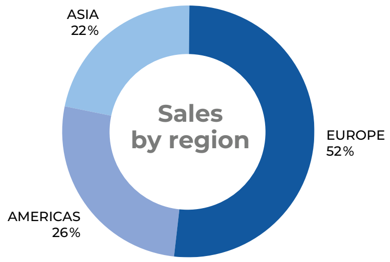
Significant events in 2019

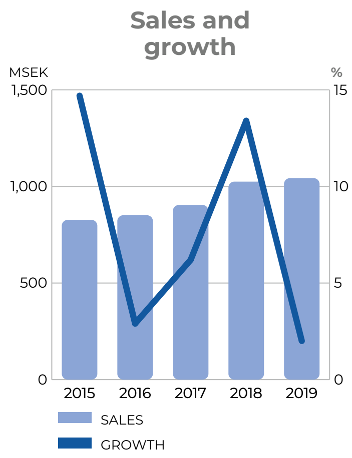
- HEXPOL Engineered Products' sales increased to 1,043 MSEK (1,025) in 2019, an increase of 2 percent compared with the preceding year. Operating profit during the same period amounted to 133 MSEK (144). The operating margin amounted to 12.8 percent (14.0).

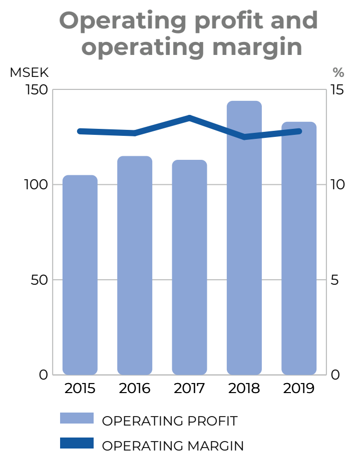
Jan Wikström
PRESIDENT HEXPOL WHEELS AND HEXPOL GASKETS AND SEALS

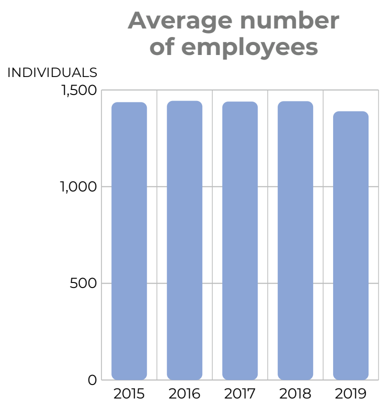
HEXPOL Engineered Products' global presence





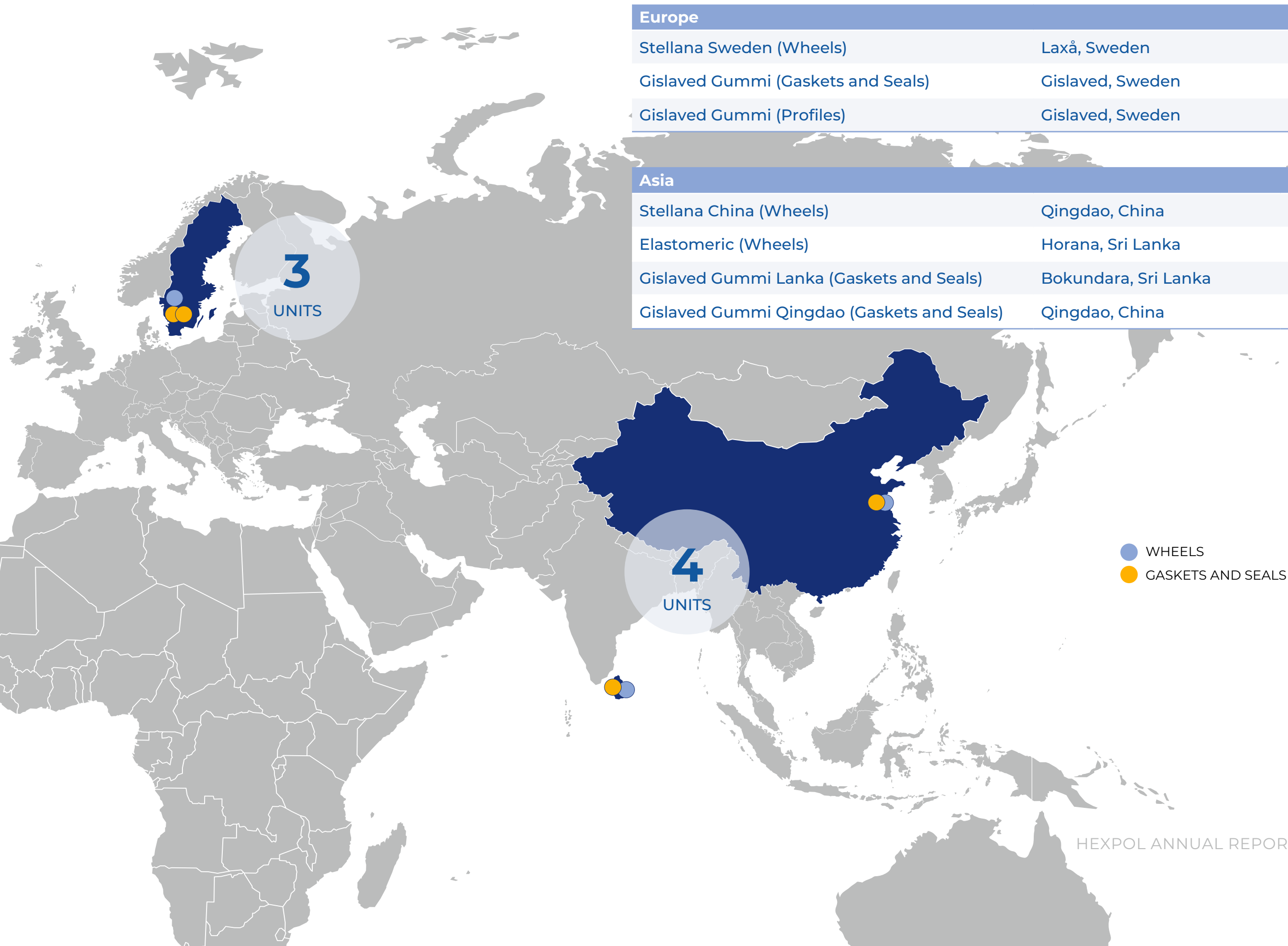






Operating units

Americas	Location	Employees	m²
Stellana US (Wheels)	Lake Geneva, USA	73	6,600
Europe			
Stellana Sweden (Wheels)	Laxå, Sweden	92	8,000
Gislaved Gummi (Gaskets and Seals)	Gislaved, Sweden	79	6,000
Gislaved Gummi (Profiles)	Gislaved, Sweden	21	2,500
Asia			
Stellana China (Wheels)	Qingdao, China	58	1,080
Elastomeric (Wheels)	Horana, Sri Lanka	525	16,590
Gislaved Gummi Lanka (Gaskets and Seals)	Bokundara, Sri Lanka	421	7,000
Gislaved Gummi Qingdao (Gaskets and Seals)	Qingdao, China	121	8,000



GLOBAL DRIVING FORCES: HEALTH

Health and well-being – a global priority

The aging population and the increasing prevalence of chronic diseases will be two of the biggest challenges in the world this century. In Europe alone, the number of people over the age of 65 will increase from 105 million in 2018 to 154 million in 2050. A number of initiatives in welfare technology and medicine are in progress to simplify diagnostics and streamline health care. At the same time, people's interest in health and well-being is growing as purchasing power around the world increases. The consumer market for products beneficial to health is growing steadily and encompasses areas including sports, food and nutrition, rehabilitation and preventive therapies.

MESGO addresses ECG challenges in Uganda with high-performance elastomers

In developing countries, for example, time and cost are a major obstacle to conducting frequent ECG examinations (a method to illustrate cardiac activity) as a prognostic or monitoring tool. The shortage of qualified and experienced personnel is another obstacle.

Last year's acquisition of the MESGO Group, with facilities in Italy, Turkey and Poland, has gained HEXPOL a leading position in the area of high-performance elastomers. And it is precisely with a unique silicone product that MESGO has contributed to a much-awaited project to develop intelligent ECG examinations at the Kitovu Hospital in Masaka, Uganda. LevMed has developed an ECG vest that transfers readings to a tablet and stores them on a secure cloud server for review by a qualified physician, either locally or elsewhere in the world. With a durable, flexible and antibacterial silicone material from MESGO, it has been possible to produce equipment that can be reused many times and where the cost of consumables such as electrodes and ECG paper is eliminated. During just the first week of the project, more than 100 ECG tracings were analyzed simultaneously, locally and by a fellow researcher in Ireland. The ECG vest also offers considerable potential on board boats, aircrafts and oil rigs, as well as in disaster situations and whenever medical personnel are not present.

"We develop advanced materials for challenging medical technology products. The challenges lie among others in mechanical ear and tear, resistance to bacteria and ease of use."

Andrea Ravasio, Director of R&D at MESGO Group

HEALTH – a global driving force for HEXPOL to relate to

Around the word, the portion of the population aged 65 years and older is growing faster than all other age groups. Aging, growing populations and a greater prevalence of chronic welfare disorders, as well as the increased focus of the individual on well-being, are causing demand in health to increase globally and, with it, spending.

These trends require innovative solutions in preventive health, medicine, medical technology and assistive technologies, with cooperation, know-how and sustainable materials being key success factors. Increased interest in personal well-being and health is also driving the consumer market.

Alongside MESGO's various products, HEXPOL has a number of innovative customer applications in the life sciences segment where, for example, its proprietary brand Mediprene holds a strong position. Examples of products in which the materials are used include medical valves, syringe seals, medical hoses and resealable membranes. The Group also has customers in consumer products for well-being and health, with its materials being used in, for example, toothbrushes, sports shoes and other sports applications, such as grips and protection, ear plugs and orthopedic inserts.

Read more about the global driving froces on the following pages:

10–11 Urbanization
22–23 Mobility
54–55 Circular economy
66–67 Digitization

Board of Directors' Report

The Board of Directors and the President of HEXPOL AB (publ.) registered in Malmö, Sweden, hereby present the annual report and consolidated financial statements for the 2019 financial year. The following income statements and balance sheets, statements of changes in shareholders' equity, cash flow statements, statements of comprehensive income and the presentation of the applied accounting policies and notes comprise HEXPOL's formal financial reporting.

Owners and legal structure

HEXPOL AB (publ.), with Corporate Registration Number 556108-9631, is the Parent Company of the HEXPOL Group.

HEXPOL's Class B shares are listed in the Large Cap segment of the Nasdaq Stockholm exchange. HEXPOL AB had 12,075 shareholders on 31 December 2019.

The largest shareholder is Melker Schörling AB with 25 percent of the capital and 46 percent of the voting rights. The 20 largest shareholders own 72 percent of the capital and 80 percent of the voting rights.

Operations and structure

HEXPOL is a world leading polymer group, with strong global market positions in advanced polymer compounds (Compounding), gaskets for plate heat exchangers (Gaskets and Seals) and wheels made of plastic and rubber materials for fork-lifts and castor wheel applications (Wheels). Customers are primarily system suppliers to the global automotive and engineering industry, the building and construction and civil engineering sector, the transport sector, the energy, oil and gas sectors, the consumer sector, the cable and wire industry, medical equipment manufacturers and manufacturers of plate heat exchangers, forklifts and castor wheels. The Group is organized in two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and had 5,061 employees in 14 countries at year-end.

FINANCIAL YEAR 2019

Sales and operating profit

The HEXPOL Group's sales increased by 13 percent over the year to 15,508 MSEK (13,770). Exchange rate fluctuations, due mainly to a strengthening of both the usd and the eur, affected sales positively by 811 MSEK.

The volume development was positive and the sales growth (adjusted for currency effects), amounted to 7 percent. Sales growth (adjusted for currency effects and acquisitions) amounted to a negative 9 percent. Sales were affected positively by sales prices having been higher due to price hikes on our principal raw materials. Sales in Europe increased by 18 percent, in the Americas by 11 percent while the sales decreased by 5 percent in Asia compared with the preceding year.

Operating profit amounted to 2,043 MSEK (2,150), and the operating margin amounted to 13.2 percent (15.6). Earnings were burdened by 199 MSEK in non-recurring items, related primarily to restructuring in America. Exchange rate fluctuations had a positive impact of 121 MSEK.

On 1 July, Preferred Compounding was acquired, a major rubber compounder in North America. In 2018, Preferred Compounding generated sales of about 240 MUSD and had some 540 employees at six facilities, five in the US and one in Mexico. The acquisition of Preferred Compounding strengthens our global positions in advanced polymer compounds with an improved supply chain, cutting-edge expertise in polymer materials and solid know-how in applications.

Business Area HEXPOL Compounding's sales increased by 13 percent over the year to 14,465 MSEK (12,745). Operating profit amounted to 1,910 MSEK (2,006). The operating margin amounted to 13.2 percent (15.7).

The HEXPOL Engineered Products business area's sales increased 2 percent over the year to 1,043 MSEK (1,025). Operating profit amounted to 133 MSEK (144), and the operating margin amounted to 12.8 percent (14.0).

Financial income and expenses

Consolidated net financial items amounted to a negative 35 MSEK (11), including exchange-rate gains and losses.

Tax expenses

The consolidated tax expense amounted to 466 MSEK (515), corresponding to a tax rate of 23.2 percent (23.8).

Profit of the year

Profit before tax for the year amounted to 2,008 MSEK (2,161). Profit after tax increased to 1,542 MSEK (1,646) and earnings per share amounted to 4.48 SEK (4.78). Profit after tax was burdened by 156 MSEK in non-recurring items related to restructuring measures in Americas.

Investments and amortization

The Group's investments amounted to 286 MSEK (207) and are mainly attributable to maintenance investments. Depreciation, amortization and impairment amounted to 447 MSEK (259).

Profitability

The return on capital employed amounted to 15.2 percent (22.5). The return on shareholders' equity amounted to 16.2 percent (20.4).

Cash flow

The operating cash flow increased to 2,607 MSEK (2,019). Cash flow from operating activities increased to 2,361 MSEK (1,806).

Financial position

The equity/assets ratio amounted to 56 percent (59). The Group's total assets amounted to 17,425 MSEK (14,456). Net debt increased to 2,376 MSEK (1,143), mainly due to acquisitions. In May, HEXPOL implemented the dividend approved by the Annual General Meeting of 774 MSEK (671) corresponding to a dividend of 2.25 SEK per share. The Group has the following major credit agreements with Nordic banks:

- A credit agreement with a limit of 125 MUSD that will fall due in February 2020.
- A credit agreement with a limit of 1,500 MSEK that will fall due in August 2020.
- A credit agreement with a limit of 1,500 MSEK that will fall due in September 2022.
- A credit agreement with a limit of 2,000 MSEK that will fall due in July 2022.

The goodwill value is tested at least once annually. Such testing was performed at year-end and did not reveal any need for impairment. On 31 December 2019, consolidated goodwill and intangible assets amounted to 9,429 MSEK (7,637).

Financial targets

The Group has the following financial targets:

- The equity/assets ratio should exceed 30 percent.

Yearly average over a business cycle:

- Sales growth (adjusted for exchange rate effects) is to exceed 10 percent.
- The operating margin (adjusted for non-recurring items) is to exceed 17 percent.

Principles for remuneration of senior executives

The 2019 Annual General Meeting resolved on the following guidelines concerning the remuneration of senior executives: Remuneration of the President and CEO and other members of Group Management shall comprise basic salary, variable remuneration, various benefits and pension.

The overall remuneration shall be on market terms and competitive to ensure that the Group can attract and retain competent executives. The variable portion of salary shall be linked to the earnings trend that people can influence and be based on the outcome in relation to individually set goals. Variable remuneration shall be capped in relation to fixed salary. Variable remuneration shall not be pensionable. Variable remuneration has a fixed cap and comprises a maximum of 130 percent of the fixed salary.

Pension benefits must be either defined-benefit or defined-contribution or a combination of both, subject to an individual pension age which must not be lower than 60 years.

The Board shall annually consider whether a share- or share price related incentive program shall be proposed to the Annual General Meeting or not. The Board's Remuneration Committee deals with matters related to remuneration of Group Management as well as those for other management levels if the Committee so wishes. The Committee reports its proposals to the Board, which makes all decisions on such matters.

The board of directors proposes that the Annual General Meeting resolves on guidelines for remuneration to the managing director, other senior executives and working Chairman of the Board as follows. Other senior executives are defined as members of the group management. What is stated in the guidelines regarding the managing director shall also apply to the working Chairman of the Board. The guidelines are applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the Annual General Meeting. These guidelines do not apply to any remuneration decided or approved by the general meeting.

The guidelines' promotion of the company's business strategy, long-term interests and sustainability

For information regarding the company's business strategy, see www.hexpol.com. A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to attract and retain qualified senior executives. To this end, it is necessary that the company offers competitive remuneration on market terms. These guidelines enable the company to offer the executive management a competitive total remuneration.

A warrants programme has been implemented for members of the group management, senior executives and key employees within the HEXPOL Group. The programme has been resolved by the general meeting and is therefore excluded from these guidelines. For more information regarding this programme, see investors.hexpol.com/en/warrants-programme.

Variable cash remuneration covered by these guidelines shall aim at promoting the company'sbusiness strategy and long-term interests, including its sustainability.

The remuneration shall be on market terms and consist of fixed cash salary, variable remuneration, other benefits and pension. Additionally, the general meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related incentive programmes.

The satisfaction of criteria for awarding variable cash remuneration shall be measured over a period of one year. The variable cash remuneration is capped and shall constitute a maximum of 130 per cent of the fixed annual cash salary.

For senior executives, pension benefits shall be paid not earlier than from the age of 60 years. For the managing director, pension benefits, including health insurance (Sw: sjukförsäkring), shall either be benefit or fee based, or a combination of both. Variable cash remuneration shall not qualify for pension benefits. The pension premiums for premium defined pension shall amount to not more than 30 per cent of the fixed annual cash salary. For other executives, pension benefits, including health insurance, shall either be benefit or fee based, or a combination of both. Variable cash remuneration shall qualify for pension benefits only to the extent required by mandatory collective agreement provisions applicable to the executive. The pension premiums for premium defined pension shall amount to not more than 30 per cent of the fixed annual cash salary.

Other benefits may include, for example, life insurance, medical insurance (Sw: sjukvårdsförsäkring) and company cars. Premiums and other costs relating to such benefits may amount to not more than 10 per cent of the fixed annual cash salary.

In relation to employments governed by rules other than Swedish, duly adjustments may be made for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

The notice period shall normally be six months on the part of the employee, without the right to severance pay. Between the company and the managing director, the managing director is entitled to a notice period of six months. At notice of termination by the company, a notice period of 24 months shall apply. For other senior executives the notice period shall normally be 12 months on the part of the company. Fixed cash salary during the period of notice and severance pay may normally together not exceed an amount equivalent to the fixed cash salary for two years for the managing director, and the fixed cash salary for one year for other senior executives.

The variable cash remuneration shall be linked to individualised predetermined and measurable criteria. The criteria shall be designed so as to contribute to the company's business strategy and long-term interests, including its sustainability, by for example being clearly linked to the business strategy or promote the executive's long-term development. The criteria applied are based om earnings, earnings per share and capital.

The variable cash remuneration shall be based on earnings and capital. Cash remuneration in accordance with the company's long-term cash-based incentive program (LTI) shall be based on earnings per share. For cash remuneration in accordance with LTI, payment of the remuneration shall be made by half approximately one year after the measurement period has ended and by half approximately two years after the measurement period has ended. The design of the criteria for variable cash remuneration and the terms for payment contributes to the company's business strategy, long-term interests and sustainability.

To which extent the criteria for awarding variable cash remuneration has been satisfied shall be determined when the measurement period has ended. The remuneration committee is responsible for the evaluation so far as it concerns variable cash remuneration to the managing director. For variable cash remuneration to other executives, the managing director is responsible for the evaluation. For financial objectives, the evaluation shall be based on the latest financial information made public by the company.

In the preparation of the board of directors' proposal for these remuneration guidelines, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the remuneration committee's and the board of directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable.

The board of directors has established a remuneration committee. Remuneration to the managing director and other senior executives shall be prepared by the remuneration committee and resolved by the board of directors based on the proposal of the remuneration committee. The committee's tasks include preparing the board of directors' decision to propose guidelines for executive remuneration. The board of directors shall prepare a proposal for new guidelines at least every fourth year and submit it to the general meeting. The guidelines shall be in force until new guidelines are adopted by the general meeting. The remuneration committee shall also monitor and evaluate programs for variable remuneration for the executive management, the application of the guidelines for executive remuneration as well as the current remuneration structures and compensation levels in the company. The managing director and other members of the executive management do not participate in the board of directors' processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

The board of directors may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the remuneration committee's tasks include preparing the board of directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

Research and development

During the year, HEXPOL's research and development expenditure amounted to 105 MSEK (99), mainly comprising development expenses in close collaboration with customers. The Group has currently no significant research expenditure that meets the criteria for capitalization.

Events after the reporting period

HEXPOL and former CEO Mikael Fryklund have agreed to part ways as of 14 February 2020. Peter Rosén was appointed Acting CEO on the same date.

Due to the Covid-19 outbreak, there is a substantial risk that there will be a significant financial impact for the Group, particularly from March and onwards. Moving forward, we and our suppliers will do everything possible to mitigate the consequences for our customers and for the entire HEXPOL Group. Given the current uncertainty, it is not possible to fully predict the financial consequences for the HEXPOL Group.

Proposed distribution of unappropriated earnings

The following unrestricted funds in the Parent Company are at the disposal of the Annual General Meeting (KSEK):

Profit brought forward	2,979,840
Share premium reserve	597,880
Profit of the year	1,260,986
Total unrestricted funds	4,838,706

The Board of Directors proposes that earnings be allocated as follows: that shareholders be paid a dividend of 2.30 SEK per share.

Total dividend from profit brought forward	791,663
To be carried forward	4,047,043
Total unrestricted funds	4,838,706

HEXPOL and sustainable development

Through preventative and targeted efforts, we seek to reduce our environmental impact and meet stakeholders' requirements and expectations with regard to sustainable development. The environment, employees, social commitment and business ethics are therefore natural components in our day-to-day work and strategic planning. We are convinced that investing in innovative products that have a reduced impact on the climate will generate environmental and business benefits.

Focus on important issues

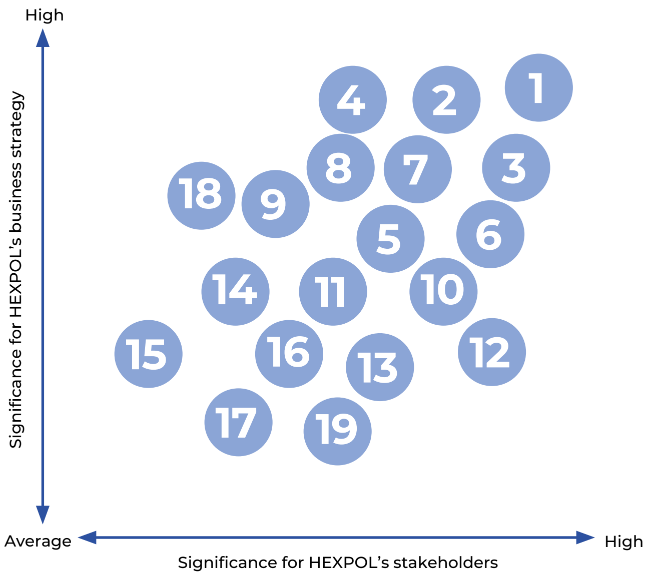
The materiality analysis generates an understanding of which areas are particularly important to our stakeholders and for the Group's business strategy. It forms a basis on which to set priorities, targets and plans of action in sustainable development. The highest priority areas are the application of good business ethics, meeting customers' demands and expectations in sustainable development and ensuring that HEXPOL is a good employer. Other key areas include energy efficiency, climate impact and safe handling of hazardous chemicals. Hidden within the topic "polymer products in a lifecycle perspective" is the current debate on the role of plastics in society. The ambition here is to continue developing products containing a significant proportion of bio-based and/or recycled raw materials. For a handful of the key areas, Group-wide targets and key performance indicators are applied.

HEXPOL influences and is influenced by its stakeholders (customers, employees, suppliers, shareholders, society) who express requirements and expectations with regard to sustainable development. The perception of which stakeholders are significant, and what they consider important, builds on experience and business relations, as well as on events during the financial year. The dialogue with stakeholders takes several formats and includes development interviews with employees, customer satisfaction surveys, meetings with analysts and partnerships with customers, suppliers and contractors. How HEXPOL adds value for stakeholders is described on pages 20–21.

Strategy for sustainable development

The strategy for sustainable development generates fundamental conditions for business operations. Lifecycle perspectives on raw materials, processes and products, preventative environmental and work environment measures, and the application of good business ethics are examples of areas of strategic importance. An issue of increasing importance is

Materiality analysis



1. Good business ethics
2. Customer requirements in sustainable development
3. Attractive employer
4. Legal requirements in sustainable development
5. Use of chemical products
6. Polymers in a life-cycle perspective
7. Energy and climate
8. Secure and educational work environment
9. Sustainability issues in connection with acquisitions
10. Suppliers' sustainability work
11. Social commitment
12. Emissions to air and water
13. Sustainability issues in developing countries
14. Equality, human rights
15. Soil contamination
16. Environmental impact of transport
17. Requirements from investors
18. Waste
19. Disruption to surroundings (noise, smells)

the development of products with a reduced impact on the climate. The long-term strategy aims to:

- Reduce the Group's risks and costs through preventive measures, risk assessments and investments in effective technical solutions.
- Generate business opportunities through responsible conduct, and developing resource-efficient production methods and products.
- Apply a goal-oriented and systematic approach aided by certified management systems in the areas of the environment, quality, work environment and energy.
- Ensure we are an attractive employer and an active corporate citizen.
- Ensure we apply sound business ethics and prevent corruption.
- Safeguard open communications regarding targets and outcomes in sustainable development.

Governance and follow-up

Sustainable development is part of the Group's strategic planning and budget process. The practical work is decentralized with managers within the Group's companies being responsible for policies, targets and results. The activities are followed up by Group management through dialogues with the companies' management and through internal and external audits. An annual follow-up is also performed regarding the Board of Directors. In connection with the Sustainability Report, an in-depth analysis is conducted of compliance with legislation and how targets, performance and key performance indicators develop over the year. At the Group level, matters related to strategy, risks, follow-up and sustainability reporting, as well as sustainability issues, are addressed in conjunction with corporate acquisitions.

Reporting of sustainability work

GRI (Global Reporting Initiative) is applied as a standard for sustainability reporting. In the area of climate, a separate report is submitted in accordance with the Carbon Disclosure Project (CDP). Reporting of climate data is based on the Greenhouse Gas Protocol (GHG). In accordance with the requirement in the Global Compact, an annual report is submitted to the UN and sustainability data (ESG: Environment, Social, Governance) is presented at the Nasdaq Listing Center. The sustainability work is reviewed regularly by independent institutions, universities and investors, and expectations regarding transparency and measurable performance have increased considerably in recent years. In the Swedish financial newspaper Dagens Industri's ranking of "Sustainable companies 2019" HEXPOL placed second in the category "Materials".

The basis for sustainability work

- Materializing Our Values is the Group's Code of Conduct and functions as an ethical compass in matters involving legal responsibility, accounting, conflicts of interest, working conditions, the environment, social responsibility and business ethics. The Code of Conduct also contains policies within the environment, work environment and other areas.

Products providing environmental benefit

In recent years, the environmental consequences of the global use of plastics and other polymers have attracted substantial attention. The Group perceives both risks and opportunities here and prioritizes the environmental adaptation of its products:

- HEXPOL's environmentally adapted TPE portfolio already includes Dryflex Green, which contains bio-based plastics, and Lifocork, a bio-composite in which we combine raw materials from cork oak with TPE. We are now introducing TPE containing recycled plastic – Dryflex Circular.
- Replacing hazardous chemical substances in products reduces the risks to people and the environment. One example is the HexFlame product family, which does not contain halogens as flame retardants.
- RheTech in the US uses significant amounts of recycled polymers in its products. The RheVision product line contains natural fibres from cacti, coconuts and rice, for example. The biological content can amount to about 15 percent and, if this is combined with recycled polypropylene, the carbon footprint of the material is considerably lower compared with traditional plastic products.
- Reduced weight lowers vehicles' fuel consumption and the porous material HexLight contributes to this. The technology reduces the density of the rubber by about 30 percent.
- Gaskets from HEXPOL Engineered Products are used in plate heat exchangers worldwide. The gaskets add environmental benefit by reducing energy consumption, reducing climate impact and facilitating safer handling of chemical products and food.

- The business ethics guidelines guide employees in matters concerning what is and what is not permitted in commercial contacts with customers, suppliers, competitors and distributors. Deeper guidelines are provided in a detailed Compliance Program, in which all managers in the Group confirm with their signatures that they are complying with the rules. The managers participate in compulsory training programmes in the area. There is zero tolerance of non-compliance in respect of business ethics.
- Whistle-blowing empowers all employees to sound the alarm, bringing irregularities concerning the Code of Conduct to the attention of the Board of Directors and company management.
- The Global Compact entails the Group having undertaken to support ten fundamental principles in respect of human rights, labour conditions, environmental consideration and anti-corruption. Global Compact is an initiative by the UN.
- The global goals for sustainable development are applied in formulating the Group's targets.
- Management systems for the environment, quality, work environment and energy have been introduced at the production facilities. The standard for social responsibility (ISO 26000) provides guidance in Group-wide sustainability work.
- Supplier Sustainability Guideline guides the company's suppliers in environmental and work environment matters, human rights, business ethics and the supplier's value chain.

WE SUPPORT

UN GLOBAL COMPACT

IN 2017, HEXPOL JOINED THE UN'S GLOBAL COMPACT INITIATIVE FOR RESPONSIBLE BUSINESS, THEREBY COMMITTING TO ADHERE TO ITS TEN PRINCIPLES IN THE AREAS OF HUMAN RIGHTS, LABOUR, THE ENVIRONMENT AND ANTI-CORRUPTION.

THIS IS OUR COMMUNICATION ON OUR PROGRESS IN IMPLEMENTING THE PRINCIPLES OF THE UN GLOBAL COMPACT AND SUPPORTING BROADER UN OBJECTIVES.

Legal and other requirements

The Group's operations are subject to comprehensive legislation, including a ban on the formation of cartels, export and import ordinances during international business transactions, trade embargoes and economic sanctions. Legislation governing the environment and occupational health and safety areas is substantial and most of the production units are subject to permit obligations in accordance with legislation in the country concerned. In addition, a number of the Group's products are subject to various environmental requirements, such as REACH. The majority of customers impose their own sustainable development demands.

The Global Goals for Sustainable Development

Within the framework of Agenda 2030, the UN published its Global Sustainable Development Goals in 2017. The 17 goals provide a clear and useful framework for meeting global challenges and has achieved considerable impact in society. They also serve to inspire innovation and business opportunities in the area of sustainability. Private and public organizations have an important role to play and the business sector is expected to contribute responsible business, transparent reporting of its own targets and results, as well as developing products and services that contribute to sustainable development.

The Global Goals help us identify areas of importance within sustainable development and we have identified several Global Goals with a clear bearing on the Group's operations. Based on the Goals, we perceive opportunities to both reduce the environmental impact and create business opportunities. We have therefore linked the Group's targets to seven of the Global Goals.

An important starting point for achieving the goals is to minimize the Group's use of resources. We bring this about by working with innovations, efficiency enhancements, investments in new technology, increased use of renewable energy, and investments in bio-based and recycled plastics. The Global Goals also inspire measures in social responsibility, social engagement and business ethics.

Statutory Sustainability Report

In accordance with Chapter 6, Section 11 of the Annual Accounts Act, the company has chosen to summarize the statutory Sustainability Report in the Annual Report, and to provide a detailed description in a separate Sustainability Report in accordance with the guidelines in the Global Reporting Initiative (GRI). The Sustainability Report is available at www.hexpol.com a few weeks after the publication of the Annual Report. The table below indicates where in the annual report the statutory information can be found. A detailed description of the different areas can be found in the separate Sustainability Report, in which the reporting principles are also presented.

Area	Page
Business model	12
Policies, frameworks, stakeholders and material issues	20–21, 41–43
Environmental responsibility	44
Personnel conditions and social responsibility	45
Human rights	45
Diversity on the Board of Directors and in management	45
Prevention of corruption	46
Targets and key performance indicators	47–48
Risks and risk management	53

Environmental responsibility

The transition to a society with no long-term impact on the climate brings both risks and opportunities for HEXPOL. By increasing energy efficiency and phasing out fossil fuels, the Group's carbon footprint is reduced. Measures also prepare the company for higher fees and taxes on activities that impact the climate. Increased use of recycled and bio-based raw materials are other measures that are positive from the perspective of climate. Environmentally compatible product development is another priority area in which the Group's expertise and technology can contribute to the customers' climate and environmental work. In the environmental area, we have several long-term targets, which are reported on pages 19 and 47–48.

Environmental aspects

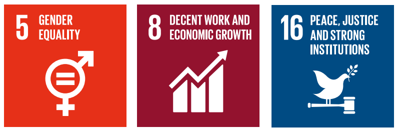
Key environmental aspects that affect HEXPOL's operations include the use of resources in the form of polymer raw materials (rubber, plastics), other chemical products, energy and water. Other significant aspects pertain to emissions into the atmosphere and waste generation. Indirect environmental aspects comprise the environmental impact of suppliers, transportation of raw materials and complete products, and customer use of the Group's products.

Environmental legislation

The Group is affected by national and international environmental legislation. The majority of the producing units require various types of permits and all the facilities in Sweden are subject to official approval or reporting pursuant to the Swedish Environmental Code. The units in the Czech Republic, Belgium, Spain, Italy, the US, Mexico, Sri Lanka and China have environmental licences that either cover all areas of their operations or that apply to specific environmental aspects, for example, emissions to the atmosphere. A few minor operations in the UK and one facility in Germany are not subject to any specific environmental permits. Compliance with permits and emission conditions is monitored through measurements and inspections, and close to 40 units submit specific environmental reports to supervisory authorities. Half of the units are planning to apply for minor updates of applicable permits in the near future.

Environmental legislation in the form of EU directives (REACH, RoHS, CLP, WEEE, energy optimization, sustainability report; see definitions) or other national or international legislation affects most of the Group's operations and products. Of the units, 14 are subject to producer responsibility legislation for packaging. The following events related to legislation and ordinances occurred during the year:

- Energy mappings were performed in accordance with the EU directive on energy efficiency.
- Supervisory authorities conducted inspections at 21 facilities. No significant deviations were identified.
- At three facilities, limits for pollutants in waste water were exceeded. These events did not result in any legal action. There were administrative violations of environmental legislation at four plants. The penalty charges were marginal.



Social responsibility

Materializing Our Values, see page 46, applies in the same way worldwide and the Group aims to be a good corporate citizen applying sound business principles. As part of the strategy for sustainable development, the Code of Conduct helps attract, develop and retain committed and skilled employees. Work environment efforts are focused on preventive measures with the vision of zero accidents occurring.

Employees

At the end of the financial year, the number of employees was 5,061 (4,640), of whom 3,665 (3,211) worked in HEXPOL Compounding and 1,390 (1,424) in HEXPOL Engineered Products. The Parent Company had six employees (five). HEXPOL is a global Group and 93 percent (93) of the employees work outside Sweden. Of the employees, 47 percent work in the United States/Mexico, 28 percent in Europe and 25 percent in Asia.

Human rights

Materializing Our Values has its background in international agreements and guidelines concerning human rights, social responsibility and sustainable development, including the UN Global Compact and the Standard for Social Responsibility (ISO 26000). The Group's requirements are that workplaces should be safe, facilitate development and comply with occupational health and safety and labour legislation. No employee may be discriminated due to gender, religion, age, physical or mental disability, sexual orientation, nationality, political opinions or origin. During the year, no deviations attributable to human rights were registered at the Group's units, or among suppliers.

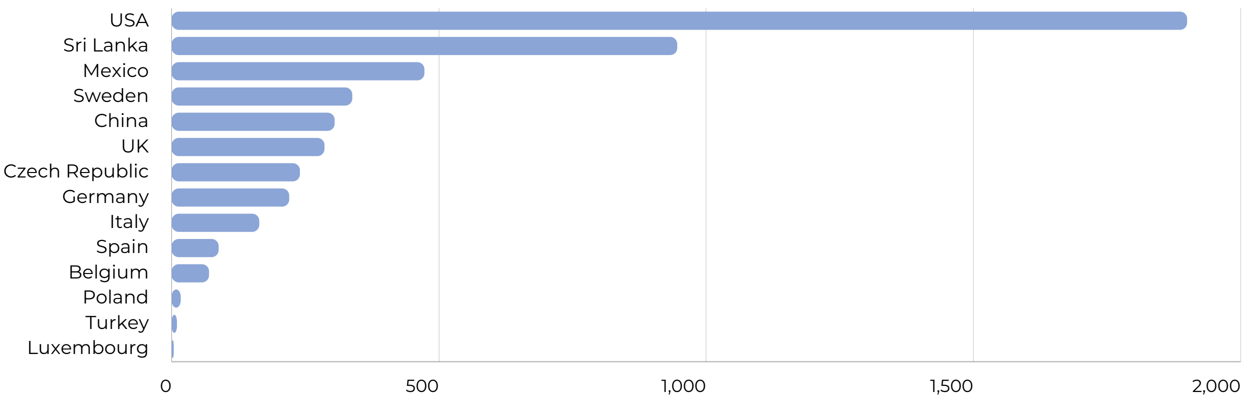
The Group's values recognize the employee's right to be represented by trade unions or other employee representatives, as well as the right to collective bargaining and agreements. The extent of coverage by collective agreements varies depending on local political and cultural conditions in the countries in which the Group is active. At about a third of the units, all employees are covered by collective agreements and this applied to Sweden, Sri Lanka, Germany, Spain and China. For other units, the affiliation to trade unions is between 0 and 75 percent.

Diversity and equality

HEXPOL encourages diversity and distances itself from all forms of discrimination. Questions regarding equal rights have been decentralized and formal equality plans exist at 61 percent (64) of the units. The employees are entitled to form and join trade unions and have the right to collective bargaining. They also have complete insight into and the right of co-determination in accordance with the provisions of national legislation. Work environment efforts focus on preventive measures and include risk analyses, training programmes and technical improvements.

In the Group, 86 percent (86) of the employees are men. A change currently in progress involves an increase in the proportion of female employees in Sri Lanka. Although this is from a very low level. The proportion of females is 57 percent (57) on the Board of Directors and 17 percent (17) in Group management. The proportion of females in the local management teams averaged 18 percent (18). There is a Group-wide equal opportunity policy, and this serves as a clear message from Group management to strive for a higher proportion of females in connection with external and internal recruitment to various positions. During the year, nothing arose that showed that the Group had breached the guidelines concerning equal opportunities or diversity.

Number of employees per country



Knowledge and skills

Networking efforts and participation in project organizations help bring employees from different cultures together to share their knowledge and experience. In addition to this, formal skills development is conducted at the Group companies and the number of training hours over the year was 171,400 (118,200). This corresponds to 32 hours (26) per employee. About 2,960 people (3,200) participated in development talks or equivalent activities. Work satisfaction, personal development, salary and career opportunities are important factors for many employees. The Group offers remuneration that, at a minimum, meets the minimum requirements in the legislation and is fully adapted to the market in the countries where HEXPOL operates. Variable performance-based compensation occurs in parts of the Group. In 2019, salary costs totalled 2,069 MSEK (1,785).

During the year, employee surveys were conducted at 18 units (17). Examples of views and wishes expressed by employees concerned personal development, training, internal communications and planning of working hours.

Social commitment

HEXPOL participates actively in the community, including through collaborations with universities, study visits from schools, "open days" for employees and their families, and financial support for healthcare, sports and cultural events. More information about the year's activities can be found in the Sustainability Report.

Business ethics and combating corruption

In accordance with Materializing Our Values and the tenth principle of the Global Compact, the business principles must be characterized by integrity and responsibility. For a global company, these issues are complex and the view of what represents normal business principles varies between different countries and cultures. Within the Group, the following methods are used to guide and monitor how business ethics are applied:

- Materializing Our Values applies to everyone and the management teams within the Group's companies are responsible disseminating the values within their organizations.
- We continuously monitor costs, expenses and revenues and are particularly aware of ethical issues in our relations with business partners.
- Although normal business practices in each country are to be observed, if the business principles do not correspond with the Code of Conduct, we shall abstain from the transaction or take other relevant measures.

The information and training initiatives continued during the year. With the help of checklists from the Global Compact, regular assessments are made of how the companies work to counteract corruption. No cases of bribery, corruption or cartelization were registered in 2019. Further information on efforts to combat corruption can be found in the Sustainability Report and in the risk section on page 53.

HEXPOL's separate sustainability report can be ordered in print version or downloaded at www.hexpol.com.

Materializing Our Values

At HEXPOL we recognize that our activities have an impact on people and the environment, both locally and globally, but we are convinced that we can contribute to sustainable development being responsible citizens.

Our primary objective is to create profitable growth and a prerequisite for doing that is to show responsibility for people and the environment, and to demonstrate sound business ethics. The commitments – Materializing Our Values – are deeply rooted in our corporate culture and strategy, meaning that we strive to limit the Group's impact on the climate and to offer a safe and stimulating work environment for our employees worldwide. It is also important that HEXPOL be associated with credibility and healthy values in our contacts with, customers, suppliers and business partners.

"Materializing Our Values" represents the Group's Code of Conduct and states the fundamental principles

governing relations with employees, business partners and other stakeholders. The guidelines offer direction to those activities in the Group in respect of legal, finance and accounting, conflicts of interest, labour conditions, and social aspects as well as good business ethics.

You can find the document on our website www.hexpol.com. To order printed copies, please contact the Group Headquarters at info@hexpol.com

Sustainability targets and key performance indicators

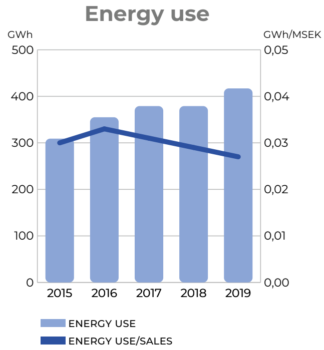
HEXPOL has introduced long-term targets and key performance indicators related to the environment, management systems, work environment and suppliers. The targets are linked to the UN's Agenda 2030 and the global objectives for sustainable development.

Target	Outcome	Continued measures

Energy

Target: Energy consumption (GWh/net sales) is to be reduced continuously. The production units work within the framework of ISO 14001 and/or ISO 50001 with detailed targets for increased energy efficiency.

Outcome: Work involving energy surveys and measures to increase efficiency continued. The installation of energy-efficient production equipment, LED lighting, infrastructure and energy monitoring equipment contributed to more efficient energy consumption. In a five- year perspective, energy efficiency has increased and the key performance indicator for energy consumption has decreased by about 30 percent since 2010.

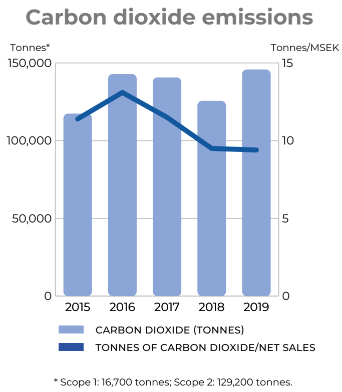


Continued measures: Purchases of energy-efficient equipment, lighting and infrastructure will continue.

Climate

Target: Emissions of carbon dioxide (tonnes CO_2e/net sales) are to be reduced by 20 percent by 2024 compared with the average for 2010–2011. We will increase our use of fossil-free energy sources. The target concerns carbon dioxide emissions arising from direct and indirect energy consumption (Scope 1 and Scope 2). There are various types of local targets and it is common for Group companies to have introduced a joint goal for climate and energy.

Outcome: The use of biofuels, purchases of green electricity and energy optimization reduce emissions of greenhouse gases. Currently, about 21 percent (24) of energy use consists of fossil-free electricity and biofuels. This is being countered by increased operations in countries where purchased electricity is generated from fossil energy and where opportunities to purchase fossil-free electricity are not offered.

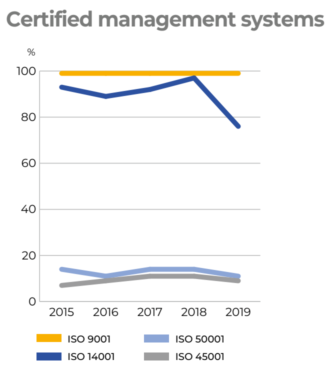


Continued measures: Energy efficiency measures, as well as procurement of biofuels and fossil-free electricity, will continue. The proportion of units with proprietary electricity production using photovoltaic cells will increase.

Environmental management systems

Target: All facilities are to have certified environmental management systems (ISO 14001). Acquired companies must implement the environmental management system within a period of two years.

Outcome: Two companies were certified in accordance with ISO 14001 during the year and 76 percent of the plants are now certified. MESGO Group, Kirkhill Rubber and Preferred, acquired in recent years, have not been ISO 14001 certified. The process has been initiated and the long-term opportunities of achieving the target are favourable.

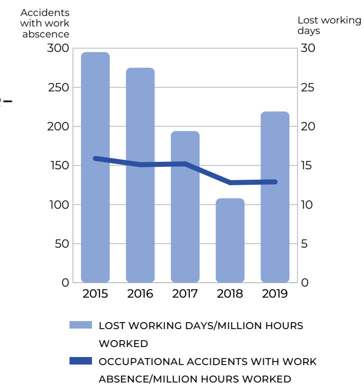


Continued measures: Eleven companies are planning for certification in 2020–2021.

CONTINUED ON PAGE 48

Target	Outcome	Continued measures
Chemical substances The use of hazardous chemicals must be identified and controlled and, wherever possible, hazardous substances are to be phased out. HEXPOL should be viewed as a frontrunner in the polymer industry as a supplier of environmentally compatible products.	Work to limit the use of particularly hazardous substances is conducted continuously. Over the year, more than 15 substances were replaced, including phthalates (plasticizers) and other substances that form nitrosamines. The development of environmentally adapted products continued during 2019, particularly in the area of thermoplastic elastomers (TPE) and examples of products providing both environmental and commercial benefits are presented on page 42. About 8 percent (15) of raw materials consisted of recycled plastics and rubber. In the US, the use of RheTech in recycled plastic (PP) decreased for reasons of cost.	Important driving forces are legislative requirements (REACH, for example) and customer demands. This process is impeded by the fact that there are hazardous chemical substances with technical characteristics that are difficult to replace, and by the fact that legislation is not globally harmonized. The replacement of hazardous substances is a long-term process and more than 15 substances, or groups of substances, are currently on the phase-out list. The work will continue for the foreseeable future.
Safe work environment The vision is that no accidents will occur at our workplaces. The target is that the number of accidents will be reduced. Systems for reporting near misses are to be in place in all operations.	The number of accidents resulting in absence from the workplace increased compared with the preceding year, as did the number of lost working days. The preventive measures implemented in the operations in the US and Mexico have had a positive impact. Unfortunately, the accident rate remains high at several of the Group's units. Systems for reporting near misses are in place at about 85 percent of the units and are being used constructively.	From an industrial perspective, the key performance indicator for occupational accidents is relatively high. Additional action is required (technical measures, training, follow-up) to be able to meet the target.
Suppliers HEXPOL Supplier Sustainability Guideline is to be applied in the supply chain.	The Group's suppliers are expected to apply a code of conduct corresponding to the requirements in Materializing Our Values. Assessments are performed through self-declarations, questionnaires, site visits and formal audits. Over the past three years, more than 1,200 raw material suppliers have been assessed and, over the year, more than 500 assessments were performed, of which approximately 70 were audits.	The Group's guidelines for suppliers were updated in 2019 and are now linked more clearly to the Global Compact. The updated guidelines and an improved assessment model will be launched in 2020.

Occupational accidents and lost working days



Risks and risk management

The capacity to identify, evaluate, manage and monitor risks is an important part of the governance and control of HEXPOL's business operations. The purpose is to achieve the Group's objectives through well-considered risk-taking within a defined framework.

Market risk management

Risk	Risk management
Sensitivity to economic trends The Group is involved in worldwide operations that are primarily geared toward the market for polymer compounds, gaskets for plate heat exchangers and wheels for the forklift industry. These markets, and thus also HEXPOL, depend on both the general economic trend and the political situation in the world and conditions that are unique for certain countries or regions in which HEXPOL or HEXPOL's customers produce or sell their products. As is the case for nearly all business operations, the general economic climate affects volumes among HEXPOL's existing and potential customers. Accordingly, a weak economic trend throughout or in parts of the world could entail lower-than-expected market growth. Developments in HEXPOL's customer segments constitute one of the principal risks related to the business environment. This results in stringent demands in terms of understanding the current and future demands, requirements and wishes of both direct and end customers.	HEXPOL's operations are widely spread geographically, with a broad global customer base within numerous market segments, providing a favourable risk diversification. Possible negative effects of a downturn in one market can therefore be partially offset by increased sales in another market. HEXPOL has a flexible production that can adapt to changed customer requirements.
Competition and price pressure HEXPOL's operations are conducted in sectors subject to competition and are thus affected by, for example, severe price pressure, which is in turn driving demand for cost-efficient solutions. Through improvements to their technology and production expertise, competing companies may begin to produce at low cost and thus increase competition with HEXPOL's products. HEXPOL's future competitive capacity is dependent on its ability to utilize the Group's leading-edge expertise in polymer compounds and rubber and plastic products and to transform this into attractive products and customized solutions at a competitive price. Increased competition and price pressure in the markets in which HEXPOL is active could have an adverse impact on the Group's operations.	Focus on product development is one of HEXPOL's operation strategies in order to maintain long-term profitability and sustainable competitiveness. The Group possesses in-depth and wide-ranging polymer and applications expertise. Most of the plants are relatively new and well-invested with high technology level. Overall, approximately five percent of HEXPOL Compounding's employees are engaged in development work and many of them are highly qualified engineers.

Risk	Risk management
Acquisitions and integration HEXPOL works on the basis of an active acquisition strategy, which has resulted in a series of successful acquisitions. Strategic acquisitions will also be a part of the growth strategy in the future. However, it cannot be guaranteed that HEXPOL will be able to find suitable acquisition targets; nor can it be guaranteed that the necessary financing for future acquisition targets can be obtained on terms that are acceptable for the Group. This could result in reduced or declining growth for HEXPOL. The completion of acquisitions also entails risks. In addition to the company-specific risks, the acquired company's relations with customers, suppliers and key individuals could be affected negatively. There is also a risk that integration processes could prove more costly or take more time than estimated and that anticipated synergies in full or in part fail to materialize.	HEXPOL evaluate a large number of companies to find acquisitions that can strengthen the Group's product portfolio or geographical position, and that supports the Group's strategic plan. An analysis of the entire company, a so-called due diligence is done to assess any potential risks before decision is taken. HEXPOL has a strong balance sheet that provides a financial platform for future acquisitions. Based on extensive experience of acquisitions and integrations of these, combined with clear strategies and objectives, HEXPOL has good potential to successfully continue the active acquisition strategy.

Strategic and operational risk management

Risk	Risk management
Customers HEXPOL conducts operations in a large number of geographic markets and offers products to a considerable number of customer categories. One major customer group comprises system suppliers to the automotive industry. A decline or weak trend in the automotive industry could have a negative impact on HEXPOL's operations. This customer group could thus entail certain risks for HEXPOL. If HEXPOL's customers fail to fulfil their obligations, or drastically reduce or cease their operations, the Group's operations could be adversely impacted.	HEXPOL has a favourable risk diversification in terms of geographical areas and customer groups. No single customer accounts for more than 10 percent of the Group's sales.
Products If HEXPOL's products do not meet customer requirements, complaints and recalls may occur.	HEXPOL uses quality systems to ensure that the product complies with specified requirements.
Suppliers HEXPOL's products consist of many different raw materials from several different suppliers. To be able to manufacture, sell and deliver products, HEXPOL depends on externally supplied goods meeting agreed requirements with respect to factors such as quantity, quality and delivery time.	HEXPOL has a favourable risk diversification in terms of suppliers and the Group is not, to any significant extent, dependent on any single supplier.
Key personnel If key persons leaves and successors cannot be recruited or if HEXPOL is unable to attract qualified personnel, this could have a negative impact on the Group's operations.	HEXPOL's future success largely depends on its ability to recruit, retain and develop the Group's employees. HEXPOL strives to be an attractive employer and encourages internal recruitment.
Production disruptions Damage to production facilities caused, for example, by fire, flood, mechanical damage, natural disaster, can lead to interruption of business and affect customer deliveries.	HEXPOL has many units which gives certain flexibility in terms of supporting production. HEXPOL works regularly with risk prevention.
Raw material HEXPOL depends on a significant number of input materials, primarily plastics and rubber raw materials. Trends in the market may result in higher purchasing prices for input materials that are crucial for HEXPOL. In view of the competitive situation, there is a risk that HEXPOL cannot raise prices sufficiently to fully offset the increased costs, leading to reduced margins.	To meet the increased costs for input materials, HEXPOL works, among other things, to improve production efficiency, developing more cost-effective processes and holding monthly price negotiations.

Legal risk management

Risk	Risk management
Legislation and regulation HEXPOL's principal markets are subject to extensive regulation. Amendments to the regulatory framework, customs regulations and other trade obstacles, anti-competition regulations, price and currency controls, as well as other public legal guidelines, ordinances and restrictions in the countries in which HEXPOL is active could have an adverse impact on the Group's operations.	HEXPOL complies in all respects with the applicable laws, regulations and ordinances in each market and works for quick adaptation to identified future changes in the area. HEXPOL educate employees in business ethics guidelines and senior managers and employees within purchasing and sales participate in education of international law relating to cartels and illegal business collaborations.
Tax risk HEXPOL conducts its operations through subsidiaries in a number of countries. The Group's interpretation of applicable laws, tax treaties, OECD's guidelines and regulations can be challenged by local tax authorities. Rules and guidelines may be subject to future changes which can have an impact on the Group's tax position.	The business, including transactions between Group companies, is conducted in accordance with the Group's interpretation of prevailing tax legislation, tax agreements, OECD's guidelines and regulations. The Group has obtained advice on certain matters from independent tax advisers. Transactions between Group companies are normally conducted at arm's length.
Intellectual property rights HEXPOL sells its products under several well-known brands. It is of major commercial significance for the Group that these brands can be protected against unauthorized use by competitors and that the goodwill associated with the brands can be maintained. According to a licence agreement with Covestro AG, HEXPOL is entitled to use the Vulkollan brand and logotype in connection with the manufacture and marketing of wheels produced by HEXPOL Wheels. The licence agreement with Covestro AG extends for one-year periods and notice may be given three months prior to the end of the agreement. Notice of termination of the agreement by Covestro would have a negative impact, since Vulkollan wheels currently accounts for a major share of the sales of the subsidiary Stellana AB.	HEXPOL has an ongoing dialogue with the license owner.
Health, safety and the environment HEXPOL has operations in many countries with different permit requirements and environmental legislation. Legislative amendments and changes in government regulations resulting in more stringent requirements or revised terms and conditions pertaining to health, safety and the environment, or a trend toward stricter application of laws and regulations by the authorities could require additional investments and lead to increased costs. Legislative amendments and changes in government regulations could also impede or limit HEXPOL's operations. The possibility of liabilities arising in conjunction with personal or property damage, as well as damage to air, water, land and biological processes may have a negative impact on the Group's operations.	HEXPOL's assessment is that its operations, in all material respects, are conducted in accordance with the applicable laws and regulations concerning health, safety and the environment. The Group continuously monitors anticipated and implemented changes in legislation in the countries where the Group operates. A number of companies within the Group conduct operations that are subject to permits or mandatory declaration under applicable local environmental legislation. Accordingly, these operations are under the supervision of the appropriate authorities. HEXPOL ensures, on an ongoing basis, that it holds all of the necessary permits and that it fulfils all of the necessary applicable declaration obligations. HEXPOL has a health insurance system in the US, whereby the employee are offered compensation for health care. The Group's expenses are maximized to a fixed amount per individual and year.

Financial risk management

Risk	Risk management

Currency risk

In its operations, HEXPOL is exposed to various financial risks, of which the currency risk is the dominant one. Exchange-rate fluctuations affect HEXPOL's earnings, in part when sales and purchases take place in different currencies (transaction exposure) and, in part when the income statements and balance sheets of foreign subsidiaries are translated to SEK (translation exposure).

HEXPOL's global operations give rise to extensive foreign-currency cash flows. The key currencies in the Group's payment flows are SEK, USD and EUR. Exchange-rate fluctuations have an impact on the Group's earnings in the translation of foreign Group companies' profit or loss to SEK. Since a considerable portion of the Group's earnings is generated outside Sweden, exchange-rate fluctuations could have a significant impact on the Group's profit or loss. In conjunction with the translation of the Group's investments in foreign subsidiaries to SEK, there is a risk that exchange rate fluctuations could have an impact on the Group's Balance Sheet.

HEXPOL's business is local, which means that sales and purchases normally are made in local currency and thus limits the Group's transaction exposure. The translation effect is limited to a certain extent through hedging instruments in the Parent Company.

A sensitivity analysis shows that the effect of a change of 10 percent against all currencies in relation to the exchange rate for SEK would affect sales by 1,291 MSEK and operating profit by 162 MSEK.

Currency	Sales	Operating profit
USD	775	117
EUR	420	63
Other	96	–18
Total	**1,291**	**162**

Interest risk

Changes in the market interest rates affect HEXPOL's net financial items.

Excess liquidity and credit agreements are primarily managed at Group level and in accordance with the financial policy and to variable interest rate. On 31 December 2019, external liabilities amounted to 4,003 MSEK (2,332 MSEK). A change in the interest rate of 1 percentage point on the Group's closing liabilities for 2019 would impact the full-year earnings by approximately 40 MSEK before tax.

Credit risks

The financial risks to which HEXPOL is exposed also include credit risks, meaning that a customer or business partner will be unable to fulfil their payment obligations or to settle receivables that HEXPOL has invoiced or intends to invoice. Financial credit risks are defined as the risk that counter-parties with which the Group has invested cash and cash equivalents, has current bank investments or has entered into financial instruments will be unable to fulfil their obligations.

HEXPOL conducts regular credit assessments of customers. HEXPOL has widely diversified customers in terms of both geographical areas and customer groups, which limits the risk of significant customer losses.

HEXPOL's excess liquidity is primarily used to amortize external loans and further surpluses are placed in well-known banks.

Financing and liquidity risk

To enable corporate acquisitions or otherwise achieve strategic objectives, HEXPOL's operations could ultimately require additional financial resources.

HEXPOL's ability to ensure future capital requirements depends to a great extent on successful sales of the Group's products and services. There are no guarantees that HEXPOL will be able to secure the necessary capital. In this regard, general developments in the share capital and credit markets are also of considerable significance. The liquidity risk is defined as the risk that the Group will be unable to entirely fulfil its payment undertakings when they fall due or will only be able to do so on highly unfavourable terms.

HEXPOL has a strong balance sheet that provides a financial platform for future acquisitions.

HEXPOL has four major credit agreements with Nordic banks:

- A credit agreement with a framework of 125 MUSD maturing in February 2020.
- A credit agreement with a framework of 1,500 MSEK maturing in August 2020.
- A credit agreement with a framework of 2,000 MSEK maturing in July 2022.
- A credit agreement with a framework of 1,500 MSEK maturing in September 2022.

Insurable risks

HEXPOL's operations, assets and employees are to some extent exposed to various types of risks that may affect HEXPOL's operations.

HEXPOL has a centrally procured coverage for property, liability, disruption, travel and transport insurance, etc., combined with local insurances where necessary.

Sustainable development risk management

Risk	Risk management
Contaminated soil Because many of the Group's facilities are built on land not previously used by operations causing contaminating. No emissions or accidents of significance to the land and groundwater were registered in 2019. There is limited soil contamination at three plants.This contamination is historical in nature and the Group is not subject to any legal requirements to decontaminate the soil.	Regular assessments of the risk for soil contamination and other environmental damage are made in conjunction with acquisitions. Where it is considered necessary, sampling of soil and groundwater is conducted. Through risk analysis and preventative actions the probability and the consequences for uncontrolled emissions are minimized.
Hazardous substances in buildings The roofs of certain buildings comprise Eternit tiles containing asbestos. The risks are considered minor and do not require actions to be taken until the roofs are to be replaced. According to legislation in Sweden, the Group performed an inventory of the properties with respect to PCB (polychlorinated biphenyls). Some small amounts of PCB were found in window seams in a number of buildings and the caulking compound will be remedied as the windows are gradually replaced. The risks to humans and the environment are very low.	Regular assessments of the presence of asbestos and PCB are made in conjunction with acquisitions. In accordance with the legislation in different countries inventories has been carried out and relevant precautions have been taken. Further actions is currently not applicable.
Climate-related risks Three of the facilities have identified flooding as a climate-related risk and certain precautions have been taken. Three facilities are located in areas that could be exposed to extreme weather.	The Group keeps itself informed of risk analyses on climate changes that are performed in countries in which it has operations. Climate-related risks are taken into account in conjunction with acquisitions and supplier assessments.
Environmental adaption of products The interest for environmentally adapted products is increasing in many industries and many of the customers sets requirements regarding phase-out of hazardous substances and other properties that have importance to health and environment. If the requirements are not met, there is a risk that the deal will be lost.	The Group is taken an active role within the area and is offering knowledge that contributes to environmental friendly product development. Many of the Group's "green products" show favourable business performance, for example Dryflex Green, which contains bio-based raw materials, and Dryflex Circular, which contains recycled polymers.
Human rights The risk for any violation of the human rights at HEXPOL's production facilities are considered low. Most of the Group's raw materials suppliers are global chemical companies, among whom risks involving human rights are also considered to be low. HEXPOL has identified suppliers of natural rubber as a potential risk area. Formal sustainability audits have been therefore been performed at natural rubber plantations in Sri Lanka. The situation around human rights was assessed as good.	HEXPOL's Code of Conduct (Materializing Our Values) specifies the view of human rights. The Code of Conduct is supplemented by the commitments under the UN Global Compact. The whistle-blowing system makes it possible for employees to sound the alarm regarding possible irregularities. In the collected data for the annual Sustainability report, all companies must take a stand on questions regarding human rights in their own operation and among the suppliers. No significant deviations have ever been registered.
Anti-corruption The Group has operations in both industrialized and developing countries. No matter where the operations are, there is a risk that sound business principles are not applied. For this reason, good business ethics are afforded a very high priority in the materiality analysis. The message from the Group management is that zero tolerance is applied for anti-corruption and lack of business ethics.	The Global Compact and the business ethics guidelines guide employees in questions regarding what is and is not allowed in contacts with business partners. In the Compliance Programme the managers confirm, through their signature, that the rules are followed. Managers and employees within sales and marketing are part of the mandatory educations within the area. In the collected data for the annual Sustainability report, all companies must take a stand on how they have worked against corruption during the year. The questions originate from the Global Compact. No significant deviations have ever been registered.

GLOBAL DRIVING FORCE: CIRCULAR ECONOMY

The decade of the circular economy

Today, 1.6 planet Earths would be needed to cope with the world's consumption and to absorb all of the waste. And the number of people able to consume is growing – the size of the "global middle class" will rise from 3.2 billion in 2020 to 4.9 billion in 2030. To mitigate the impact, the focus on the entire product life cycle must be increased. This includes not only the properties of the product but also the raw materials, supply source and production methods – and the kinds and types of waste generated in the process.

At the same time, system pressures are increasing. Consumer behavior is changing and new, more sustainable solutions are increasingly in demand. Various global and state laws are also driving change by, for example, extending producer responsibility.

HEXPOL TPE, with operations in the UK, Germany, Sweden, the US and China, is part of the Group that has long worked with sustainability and materials offering customers new alternatives. The latest addition was presented at the major international exhibition K2019 in Dusseldorf – a series of thermoplastic elastomers (TPE) with recycled content, marketed under the name Dryflex Circular.

Recycled and renewable raw materials

To clearly mark the origins of the TPE, the Dryflex Circular series is divided into different groups based on the recyclate source. These include content from Post Consumer Recyclate (PCR) and Post Industrial Recyclate (PIR) sources.

Dryflex Circular TPEs are available in a range of hardnesses and with recycled content up to around 80 percent by weight. Target applications include vehicle exterior applications, such as mudguards, door sills and wheel arch liners. Or outdoor equipment, such as parts for lawn mowers. The new series also includes grades in a natural color, offering additional design possibilities, these qualities can be used for consumer goods, sports equipment, shoes, and household and vehicle applications.

Increasing the use of recycled and renewable materials will help support the move to a circular economy model, by lowering demand on finite fossil-based virgin materials. Dryflex Circular broadens the opportunities for HEXPOL TPE's customers, facilitating the evolution of the plastics industry.

"A growing number of companies turn to us for our experience with sustainable materials, such as Dryflex Green, soft plastics that use raw materials from plants, and the new Dryflex Circular TPE."

Jill Bradford, Marketing Manager for HEXPOL TPE

CIRCULAR ECONOMY – a global driving force for HEXPOL to relate to

Every day, 3.5 million tonnes of waste are produced worldwide, and that figure is expected to nearly double within five years. The circular economy aims to no longer allow products to become waste, once they have served out their purpose, but to reintroduce them into the production cycle as secondary raw materials.

At all stages, demands are increasing that raw materials be used sustainably and efficiently. For this reason, resource-intensive industries benefit by re-processing valuable raw materials. Increasingly, end customers demand that products have an extended service life, are recyclable and manufactured sustainably.

HEXPOL has built a strong position with both its extensive customer know-how and its long-term efforts to develop sustainable raw materials and in which methods are being developed for returning rubber waste from manufacturing to be re-used as new material in production.

Read more about the trends on the following pages:

10–11 Urbanization
22–23 Mobility
36–37 Health
66–67 Digitization

Active corporate governance lays the foundation for continued value creation

The foremost event of 2019 was the acquisition of Preferred Compounding in the US, a company that we have followed for quite a few years and an acquisition that clearly strengthens our leading global position. This acquisition and the acquisitions during 2018 of MESGO and Kirkhill underlie the year's growth and provide a strong platform for us to continue developing profitably.

HEXPOL's growth-driven operations and strategy impose demands on corporate governance to ensure that this growth also generates value. For this reason, it is important that the Board, in its work, keeps an eye on the long-term trend and on the maintenance of a favourable balance between the Group's business opportunities and the identification and management of the risks posed by our increasingly complex and dynamic environment. Accordingly, HEXPOL's corporate governance sets out a clear structure with overall objectives, instructions and guidelines for the ongoing work of the Company, but also well-balanced restrictions, establishing the framework of the operations and ensuring that the Company is managed in the most focused, efficient, ethical and sustainable manner possible.

I am therefore pleased with the strong focus of HEXPOL's work on sustainability. During the year, new materials in tune with circular thinking gained attention and stand as examples of both our in-depth knowledge and our innovative capacity in advanced polymers. Our established corporate culture and core values are our signature, expressed with the watchwords "decentralized but extremely coordinated". We have achieved our leading position through our ability to combine local entrepreneurship and market knowledge with the global coordination of business-critical processes.

HEXPOL's Board of Directors is well-balanced, with the skills, experience and qualities needed to address all areas crucial for the operations and I would like to thank my colleagues on the Board for their commitment during the year. I would also like to thank former CEO Mikael Fryklund for his loyal and dedicated work since 2017, during which time several sizable and well-considered corporate acquisitions were implemented. Finally, I would like to thank the other members of Group Management and all of the Group's employees for their excellent efforts during a year pervaded by major acquisitions and market challenges alike.

HEXPOL's responsible corporate governance forms a cornerstone in the process of building trust with all of the Group's stakeholders. This trust is a prerequisite for our continued success, as we leverage our financial and organizational capacity to further consolidate our position as the leading player in advanced polymer materials.

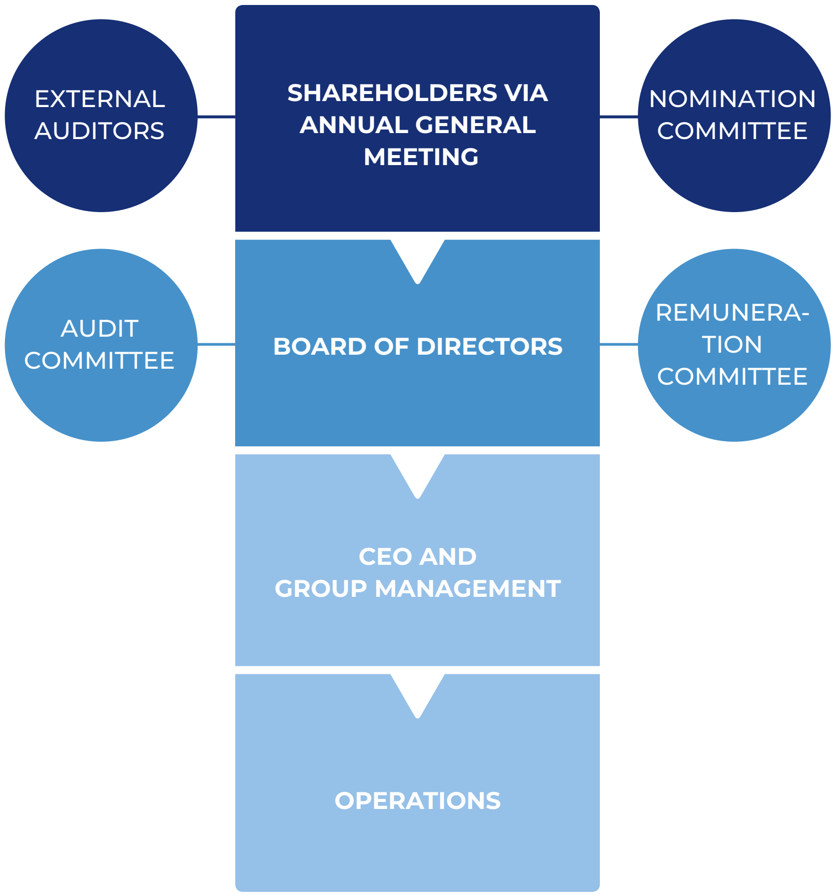
Malmö, Sweden, March 2020

Georg Brunstam, Chairman of the Board

Georg Brunstam
CHAIRMAN OF THE BOARD

Corporate Governance Report

HEXPOL is a public company listed on Nasdaq Stockholm, Large Cap. The governance of the HEXPOL Group is based on Swedish legislation, primarily the Companies Act, HEXPOL's Articles of Association, the Nasdaq Stockholm's rules for issuers and the Swedish Code of Corporate Governance (the Code).



Ownership structure and share

On 31 December 2019, HEXPOL's share capital amounted to 68,840,256 SEK, divided between 344,201,280 shares, of which 14,765,620 were Class A shares, conveying ten votes apiece, and 329,435,660 were Class B shares, conveying one vote apiece. The largest individual shareholder is Melker Schörling AB, whose holding at the end of 2019 comprised a total 14,765,620 Class A shares and 69,413,430 Class B shares, corresponding to 46 percent of the votes and 25 percent of the capital in the Company. No other shareholder has a direct or indirect holding amounting to at least 10 percent of the total number of votes in the Company. For more detailed information on ownership structure and the share, see pages 6–7.

Articles of association

HEXPOL's current Articles of Association were adopted on 4 May 2015. The Articles of Association state that the objective of the Company's operations is to acquire, own and actively manage shares mainly in industrial, trading and service companies. The Company shall also own and manage securities, sell services in the administrative area and pursue other operations compatible therewith.

The Articles of Association formalize issues such as shareholders' rights, the number of Board Members and auditors; that the Annual General Meeting (AGM) is to be held annually within six months of the end of the financial year; how the notice convening the AGM is to be sent; and that the Company's Board has its registered office in Malmö, Sweden. The current Articles of Association are available on the Company's website.

General Shareholder Meetings

A General Shareholder Meeting is HEXPOL's highest decision-making body, which all shareholders are entitled to attend. At a General Shareholder Meeting, all shareholders have the opportunity to exert an influence over the Company by exercising the votes attached to their respective shareholdings. At the Annual General Meeting (AGM), the Board presents the annual report, the consolidated financial statements and the auditors' report.

HEXPOL announces the Annual General Meeting no later than four weeks prior to the Meeting. The Annual General Meeting is usually held in Malmö, Sweden, although, in accordance with the Articles of Association, it may also be held in Stockholm, and it is usually held in April or May. Among other matters, the AGM passes resolutions such as the adoption of the Income Statement and Balance Sheet, the dividend to be paid, amendments to the Company's Articles of Association, discharge from liability for the Board and President, election of Board members and auditors, and the setting of remuneration for the Board members and auditors.

Annual General Meeting 2019

The 2019 AGM was held on 26 April 2019 in Malmö, Sweden. At the AGM, shareholders in attendance represented approximately 63 percent of the total voting rights. The Chairman of the Board, Georg Brunstam, was elected Chairman of the Meeting. At the Meeting the Income Statement and Balance Sheet and the consolidated Income Statement and Balance Sheet, was approved.

The Meeting approved the Board's proposal for a dividend of SEK 2.25 per share for the 2018 financial year. Georg Brunstam, Alf Göransson, Jan-Anders E. Månson, Malin Persson, Märta Schörling Andreen, Kerstin Lindell and Gun Nilsson were re-elected as members of the Board.

Georg Brunstam was re-elected as Chairman of the Board. The Meeting approved the Board's proposed guidelines for remuneration to HEXPOL's senior executives.

Annual General Meeting 2020

HEXPOL's Annual General Meeting 2020 will be held on 28 April 2020 in Malmö, Sweden. For information about the AGM, refer to page 100.

Nomination Committee

HEXPOL's AGM determines the composition of the Company's Nomination Committee. The Nomination Committee's task is to submit proposals regarding the Chairman of the AGM, Chairman and other members of the Board, as well as in respect of the fees and other remuneration for Board assignments to each of the Board members. The Nomination Committee is also to submit proposals regarding the election and fees to be paid to auditors.

In the nomination process in preparation for the Annual General Meeting in 2019, the Nomination Committee applied rule 4.1 of the Code on Diversity Policy in preparing its proposals for the Board. The Nomination Committee concluded that the Board of HEXPOL has an even gender distribution and an appropriate composition in other regards.

The 2019 AGM passed a resolution to the effect that HEXPOL's Nomination Committee should comprise four members representing the largest shareholders in terms of voting rights and that Mikael Ekdahl (Chairman), representing Melker Schörling AB, Åsa Nisell representing Swedbank Robur fonder, Henrik Didner representing Didner & Gerge Fonder and Marcus Lüttgen representing Alecta Pensionsförsäkring should be members of the Nomination Committee ahead of the 2020 AGM.

Should a shareholder who is represented by one of the members of the Nomination Committee cease being one of the largest shareholders in HEXPOL, or should a member of the committee no longer be employed by such a shareholder or for any other reason leave the committee prior to the AGM 2020, the committee is entitled to appoint another representative from among the major shareholders to replace such a member.

During the year, the Nomination Committee held four meetings at which minutes were recorded. The Committee discussed the desired changes and decided on proposals to be submitted ahead of the 2020 AGM.

The Board of Directors and its work

Composition of the Board and independence

According to the Articles of Association, HEXPOL's Board is to consist of at least five and no more than ten members, with no more than two deputies. HEXPOL's Articles of Association contain no provisions regarding appointment or dismissal of Board members or amendments to the Articles. The Board is elected annually at the AGM for the period up to the end of the next AGM. HEXPOL's AGM on April 26, 2019 resolved to elect a Board consisting of, Georg Brunstam (Chairman), Alf Göransson, Malin Persson, Jan-Anders E. Månson, Märta Schörling Andreen, Kerstin Lindell and Gun Nilsson. The Board was elected for the period up to the 2020 AGM. HEXPOL's President and CEO and HEXPOL's CFO participate in Board meetings. On request, other HEXPOL employees attend Board meetings to present certain specific issues.

The Board's assessment of its members' independence in relation to the Company, its management and major shareholders, which is shared with that of the Nomination Committee, is presented on page 64. According to the requirements presented in the Code, the majority of the Board members elected by the AGM shall be independent in relation to the Company and its manage-

Work of the Board of Directors

ment, and at least two of the Board members shall also be independent in relation to the Company's major shareholders. As shown on page 64, HEXPOL meets these requirements. Members can be reached at the address of HEXPOL's head office.

Responsibilities of the Board of Directors

The Board is responsible for determining the Group's overall objectives, developing and monitoring the general strategy, decisions on major acquisitions, divestments and investments and ongoing monitoring of operations during the year. The Board is also responsible for ongoing evaluation of management and for ensuring that there are effective systems for monitoring and internal control of the Company's operations and its financial position, and for the Group's organization and management pursuant to the Swedish Companies Act. The Board also appoints the President and CEO, the Audit Committee and Remuneration Committee, as well as deciding on matters involving the salary and other remuneration of the President and CEO.

The activities of the Board and division of responsibility between the Board and executive management are governed by the Board's work procedures. Work procedures include instructions for the President and CEO in respect of financial reporting as well as instructions for the Audit Committee and Remuneration Committee. These are reviewed and set annually.

Evaluation of the Board's work

Evaluation of the Board's work, including its committees, are conducted annually. The evaluation covers the Board's work processes, competence and composition, including Board members' backgrounds, experience and diversity.

The evaluation is coordinated by the Chairman of the board. In 2019, the Chairman conducted a written questionnaire-based survey of all Board members.

The results of the evaluation have been reported and discussed by the Board and the Nomination Committee.

Board committees

The Board has established two committees from among its members: the Audit Committee and Remuneration Committee. The Board's Audit Committee, which is a preparatory function in the contact between the board and auditors, follows a written instruction and should through its operations meet the requirements of the Companies Act and the EU Audit Regulation.

The Audit Committee's tasks include, among other things, to assist the Nomination Committee in preparing the proposal of auditors and auditing fees to the General Shareholder Meeting, the Committee shall monitor so that the auditor's mandate does not exceed the applicable rules, procure audit services and submit a recommendation in accordance with the EU Audit Regulation. The Committee shall also review and monitor the auditor's impartiality and independence, and paying particular

attention if the auditor provides the Company with services other than auditing. The Committee shall also issue guidelines for services other than auditing provided by auditors and when appropriate to approve such services in accordance with the issued guidelines. The Committee shall participate in the planning of the audit work and related reporting and should regularly consult and discuss with the external auditors to keep informed about the direction and scope of the audit. The Committee shall also review and monitor the Group's financial statements, the work of the external auditors, the Company's internal control system, the current risk profile and the Company's financial information.

The committee's tasks also include making recommendations and suggestions to ensure the reliability of financial reporting as well as other issues the Board assigns the Committee to prepare.

The Audit Committee shall meet regularly with HEXPOL's auditors and report back to the Board. The committee has not, except as expressly stated in the Board's adopted written instructions for the Audit Committee, authority to make any decisions on behalf of the Board. The Board appoints the members of HEXPOL's Audit Committee annually. At least one member shall possess accounting or auditing qualifications, and all the Committee members must be familiar with economic and financial issues. During 2019, the Audit Committee consisted of Gun Nilsson (Chairman), Malin Persson and Märta Schörling Andreen. During the period, the Audit Committee held three minuted meetings, each attended by all of the members.

The task of the Board's Remuneration Committee is to deal with matters involving remuneration guidelines, salaries, bonus payments, warrants, pensions and other forms of remuneration for Group executive management. The Remuneration Committee may also address issues related to other management levels, should the Board decide in this respect, as well as other similar issues that the Board assigns the committee to prepare. The committee has no authority to make decisions, but instead presents its findings and proposals to the Board for a decision. The Board appoints the members of HEXPOL's Remuneration Committee annually. During 2019, the Remuneration Committee consisted of Georg Brunstam (Chairman) and Märta Schörling Andreen. The Remuneration Committee held one minuted meeting during the year, attended by both of the members.

Board activities in 2019

During the year, the Board held a total of seven Board meetings, where of one statutory meeting. At the meetings, HEXPOL's CEO reported on the market position and financial position as well as significant events that affected the Company's operations. The Board has also, among others, addressed questions related to investment, interim reports, the annual report, acquisitions and the auditors' report on the audit work.

During 2019, all AGM-elected Board members attended all Board meetings except at one meeting when one Board member was unable to attend.

Johan Thuresson
AUTHORIZED PUBLIC ACCOUNTANT AND MEMBER OF FAR

Born: 1964
Nationality: Swedish
Other assignments: Precis Biometrics AB, Alligator Bioscience AB, Tetra Pak and Axis AB

Auditors

The auditors are elected at the AGM and, on behalf of the shareholders, are responsible for examining the Annual Report and accounting records, as well as the administration by the Board and President. HEXPOL's auditors normally attend at least one Board meeting annually at which they report their observations from the Group's internal control procedures and the annual financial statements. The auditors also report to and meet the Audit Committee. Moreover, the auditors participate in the AGM to present the auditors' report, which describes the audit conducted and the observations made.

The 2019 AGM re-elected the registered auditing firm, Ernst & Young AB, for the term of one year up to the end of the next AGM, with Authorized Public Accountant Johan Thuresson as auditor-in-charge. The auditor can be reached at Ernst & Young AB, Nordenskiöldsgatan 24, SE-203 14 Malmö, Sweden. The auditors for the forthcoming term will be elected at the 2020 AGM.

Internal audit

The Board shall according to the Code annually evaluate the need for a separate audit function (internal audit) to ensure that established principles for financial reporting and internal control are followed and that the Company's financial statements are prepared in accordance with the law, applicable accounting standards and other requirements for listed companies. The Board have with regard to HEXPOL's work and procedures for internal control assessment that there is no need for a special review. The issue of a special audit function will be reviewed again in 2020.

CEO and Group Management

The President and CEO is responsible for leading and controlling HEXPOL's operations pursuant to the Swedish Companies Act, other legislation and ordinances, applicable rules for listed companies, including the Code, the Company's Articles of Association and the instructions and strategies established by the Board. The President and CEO shall ensure that the Board receives unbiased, detailed and relevant information required to enable the Board to make well-founded decisions. In addition, the President and CEO is responsible for keeping the Board informed of the Company's development between Board meetings. The President and CEO has appointed a Group Management consisting of the CFO, the head of M&A and strategy and the Company's business and product area managers.

Group Management has overriding responsibility for the Group's operations and the allocation of financial resources among business operations and for the financing and capital structure. Regular Group Management and Steering Committee meetings serve as the forum for the implementation of the Group Management's overall governance down to each business and product area, and, in turn, down to the subsidiary level. The organization is structured to facilitate short and prompt decision-making processes, with clear, decentralized responsibility. Group Management is presented on page 65, in terms of descriptions of their employment period at HEXPOL, educational background, year of birth, shareholding, etc.

Information on remunerations

Refer to Note 4 on page 77 for information on remuneration, pensions and other benefits for the Board, President and other senior executives.

Financial reporting

HEXPOL provides continuous market information concerning the Company's progress and financial position.

HEXPOL aims to be open, factual and provide a high degree of service in terms of financial reporting in an effort to build market confidence in the Company and enhance interest in the HEXPOL share among current and potential investors. HEXPOL has a communication policy, whose aims include ensuring that the Company fulfils the requirements concerning information disclosure to the stock market.

HEXPOL's financial and other communication activities must always comply with the EU Market Abuse Regulation, Nasdaq Stockholm Exchange's regulations, generally acceptable behaviour in the stock market and other relevant regulations and legal obligations to which HEXPOL may be subject. Communication activities shall also be designed to create a flow of uniform actions between the Company, the employees and the business environment. The policy establishes the distribution of responsibility for information matters and stipulates who may represent the Company as a spokesperson. The policy also includes procedures for interim reports, Annual Reports, Annual General Meetings, press releases, meetings with investors and the Company's website. The Company's prevailing communication policy is reviewed annually and is revised as needed.

Internal control of financial reporting

The internal control of financial reporting is part of the overall internal control within HEXPOL and is a central component of the Group's corporate governance. The most important objectives are for the internal control to be efficient and effective, to provide reliable reports and for it to comply with laws and regulations.

According to the Swedish Companies Act and the Code, the Board of Directors is responsible for internal control. The Annual Accounts Act stipulates that the Corporate Governance Report must contain information concerning the principal aspects of the Company's internal control and risk management systems in conjunction with the financial reporting. Internal control and risk management in terms of financial reporting is a process that involves HEXPOL's Board, corporate management and personnel. The process has been designed so that it provides reasonable assurance of the reliability of external reporting. According to a generally accepted framework that has been established for this purpose, the most important aspects of HEXPOL's internal control and risk management systems are usually described from different perspectives, which are described below.

Control environment

HEXPOL's organization is designed to facilitate rapid decision making. Operational decisions are therefore made at the business area, product area or subsidiary level, while decisions on strategies, acquisitions and divestments, as well as on overarching financial matters are made by the Company's Board of Directors and Group Management. The organization is characterized by well-defined allocation of responsibility and well-functioning and well-established governance and control systems, which apply to all HEXPOL units. The basis for the internal controls and risk management pertaining to financial reporting comprises an overall control environment in which the organization, decision-making routes, authorities and responsibilities have been documented and communicated in control documents, such as in HEXPOL's finance policy and financial reporting instructions and in accordance with the authorization arrangements established by the CEO.

HEXPOL's financial control functions are integrated by means of a Group-wide reporting system. All of HEXPOL's subsidiaries report complete financial statements on a monthly basis. This reporting provides the basis for the Group's consolidated financial reporting. Each legal entity has a controller responsible for the business area's financial control and for ensuring that the financial reports are correct, complete and delivered in time for consolidated financial reporting.

The Group's financial control unit engages in close and well-functioning cooperation with the subsidiaries' controllers in terms of the financial statements and the reporting process. The Board's monitoring of the Company's assessment of its internal control includes contacts with the Company's auditors.

Risk management

The significant risks affecting the internal control of financial reporting are identified and managed at Group, business area, subsidiary and unit level. Within the Board, the Audit Committee is responsible for ensuring that significant financial risks and the risk of error in financial reporting are identified and managed in a manner that ensures correct financial reporting. Special priority has been assigned to identifying processes that, relatively speaking, give rise to a higher risk of significant error due to the complexity of the process or of the contexts in which major values are involved.

Control activities

The risks identified with respect to the financial reporting are managed via the Company's control activities, which are designed to prevent, uncover and rectify errors and deviations. Their management is conducted by means of manual controls in the form of, for example, reconciliations and audits and automatic controls using IT systems. Detailed analyses of financial results and followups in relation to budget and forecasts supplement the business-specific controls and provide general confirmation of the quality of financial reporting.

Information and communication

To ensure the completeness and correctness of financial reporting, the Group has formulated information and communication guidelines designed to ensure that relevant and significant information is exchanged within the business, in the particular unit and to and from management and the Board. Guidelines, handbooks and job descriptions pertaining to the financial process are communicated between management and personnel and are accessible electronically and/or in a printed format. Via the Audit Committee, the Board receives regular feedback in respect of the internal control process.

To ensure that the external communication of information is correct and complete, HEXPOL complies with a Board-approved communication policy that stipulates what may be communicated, by whom and in what manner.

Follow-up

The efficiency of the process for risk assessment and the implementation of control activities are followed up continuously. The follow-up pertains to both formal and informal procedures used by the officers responsible at each level.

The procedures incorporate the follow-up of financial results in relation to budget and plans, analyses and key performance indicators. The Board obtains ongoing reports on the Group's financial position and performance. At each scheduled Board meeting, the Group's financial position is addressed and, on a monthly basis, management analyzes the Company's financial reporting at a detailed level. The Audit Committee follows up the financial reporting at its meetings and receives reports from the auditors describing their observations.

At www.hexpol.com information including the following can be found:

- Articles of Association
- Code of Conduct
- Previous years' Corporate Governance Reports, commencing 2008
- Information from HEXPOL's Annual General Meetings, commencing 2008 (notices, minutes, CEO's speeches and communiques)
- Information regarding the Nomination Committee
- Information on principles for remuneration of senior executives
- Information in preparation for the 2020 Annual General Meeting

Board of Directors

Georg Brunstam

CHAIRMAN

Elected: 2007
Born: 1957
Nationality: Swedish
Education: M. Sc. (Eng.)
Other assignments: Chairman of the Boards of AAK AB and Inwido AB. Member of the Board of Melker Schörling AB, Nibe Industrier AB and Beckers Industrial Coats Holding AB
Independent in relation to the Company and management: No
Independent in relation to major shareholders: No
Committee: Remuneration Committee
Own holding and holdings of related parties: 1,000,000 Class B shares, 300,000 warrants

Alf Göransson

MEMBER

Elected: 2007
Born: 1957
Nationality: Swedish
Education: International B.Sc. (Econ.)
Other assignments: Chairman of the Board of Loomis AB and Axfast AB. Member of the Boards of Attendo AB, Sweco AB, NCC AB, Melker Schörling AB and Sandberg Development Group
Independent in relation to the Company and management: Yes
Independent in relation to major shareholders: No
Committee: –
Own holding and holdings of related parties: 3,000 Class B shares

Malin Persson

MEMBER

Elected: 2007
Born: 1968
Nationality: Swedish
Education: M. Sc. (Eng.)
Other assignments: Member of the Boards of companies including Peab AB, Getinge AB and Hexatronic AB
Independent in relation to the Company and management: Yes
Independent in relation to major shareholders: Yes
Committee: Audit Committee
Own holding and holdings of related parties: –

Jan-Anders E. Månsson

MEMBER

Elected: 2008
Born: 1952
Nationality: Swedish
Education: M. Sc. (Eng.) and PhD
Other assignments: Professor at Purdue University. Co-Exec. Dir. Indiana Next Generation Manufacturing Competitiveness Center (INMAC), Exec. Dir. Ray Ewry Sports Engineering Center and member of the Board of Eelcee Ltd.
Independent in relation to the Company and management: Yes
Independent in relation to major shareholders: Yes
Committee: –
Own holding and holdings of related parties: –

Märta Schörling Andreen

MEMBER

Elected: 2014
Born: 1984
Nationality: Swedish
Education: B.Sc. (Econ.)
Other assignments: Member of the Board of Melker Schörling AB, Hexagon AB, Absolent Group and AAK AB
Independent in relation to the Company and management: Yes
Independent in relation to major shareholders: No
Committee: Audit Committee and Remuneration Committee
Own holding and holdings of related parties: 14,765,620 Class A shares and 69,413,430 Class B shares, through Melker Schörling AB

Kerstin Lindell

MEMBER

Elected: 2016
Born: 1967
Nationality: Swedish
Education: Master Business Administration, PhD Polymer Chemistry and Master Chemical Engineering
Other assignments: CEO of Bona AB. Vice Chairman of The Chamber of Commerce and Industry of Southern Sweden. Member of the Boards of Peab AB and Inwido AB
Independent in relation to the Company and management: Yes
Independent in relation to major shareholders: Yes
Committee: –
Own holding and holdings of related parties: 5,000 Class B shares

Gun Nilsson

MEMBER

Elected: 2017
Born: 1955
Nationality: Swedish
Education: B.Sc. (Econ.)
Other assignments: Chairman of the Board of Hexagon AB, President and CEO of Melker Schörling AB and Member of the Boards of AAK AB, Bonnier Group AB and the Swedish Corporate Governance Board
Independent in relation to the Company and management: Yes
Independent in relation to major shareholders: No
Committee: Audit Committee
Own holding and holdings of related parties: 5,000 Class B shares

Group Management

Peter Rosén

ACTING CEO,
CFO AND INVESTOR RELATIONS MANAGER

Employed, year: 2019
Born: 1968
Nationality: Swedish
Education: B.Sc. (Econ.)
Other assignments: –
Own holding and holdings of related parties: –

Jan Wikström

PRESIDENT OF HEXPOL THERMOPLASTIC COMPOUNDING*, HEXPOL WHEELS AND HEXPOL GASKETS AND SEALS

Employed, year: 2008
Born: 1972
Nationality: Swedish
Education: M.Sc. (Eng.)
Other assignments: –
Own holding and holdings of related parties: 800,000 Class B shares, 75,000 warrants

Ken Bloom

PRESIDENT OF HEXPOL COMPOUNDING AMERICAS

Employed, year: 2020
Born: 1963
Nationality: American
Education: B.Sc. (Eng.) and MBA in finance
Other assignments: –
Own holding and holdings of related parties: –

Ralph Wolkener

PRESIDENT HEXPOL COMPOUNDING EUROPE/ASIA AND PRESIDENT HEXPOL TPE COMPOUNDING

Employed, year: 1997
Born: 1971
Nationality: Belgian
Education: B.Sc. (Econ.)
Other assignments: –
Own holding and holdings of related parties: 88,500 Class B shares, 75,000 warrants

Carsten Rüter

PRESIDENT OF HEXPOL COMPOUNDING EUROPE/ASIA, HEXPOL COMPOUNDING GLOBAL PURCHASING/TECHNOLOGY AND HEXPOL TPE COMPOUNDING

Employed, year: 1997
Born: 1971
Nationality: German
Education: M. Sc. (Eng.)
Other assignments: –
Own holding and holdings of related parties: 100,000 Class B shares, 75,000 warrants

Magnus Berglund

SENIOR VICE PRESIDENT, STRATEGY, M&A

Employed, year: 2008
Born: 1971
Nationality: Swedish
Education: M.A. (Econ.) and B.Sc. (Eng.)
Other assignments: –
Own holding and holdings of related parties: 17,000 Class B shares, 30,000 warrants

*Jan Wikström was appointed President HEXPOL Thermoplastic Compounding March 23, 2020.

GLOBAL DRIVING FORCE: DIGITIZATION

Digitization – an important driving force in manufacturing

The digital revolution has swept across the globe, changing everything from people's purchasing patterns and behaviors to various digitized tools. Alongside new, disruptive business models for communications, trade, services, healthcare and entertainment, major changes are also taking place in more traditional manufacturing industries. Companies invest in digitization technology to accelerate growth and increase their productivity in various ways.

Digitization safeguards efficiency, quality and traceability in HEXPOL's production

In Eupen, in Belgium, many gigabytes of data are stored relating to HEXPOL's compounding operations and covering about 1 million recipes and each batch of material produced. Here, more than 1,300 data points (each at least once per second) are recorded from HEXPOL Compounding's 18 production sites in Europe and Asia. As many as 56 data collection points per production line record everything from the weighing and feeding of materials into mixers, mixing speed, temperature, ram position, ram pressure, cooling, energy consumption, and the dimensions and weight of the finished goods.

Today, the information is used to identify variations in the production process, to analyze quality and, if something is amiss, to identify the fault. The increased data collection has already led to significant savings in mixing times and the body of data that has been amassed is used to continuously improve efficiency.

"We continuously collect data from the production lines, to understand precisely what is happening."

Daniel Pankert, Process Intelligence Manager at HEXPOL Compounding Europe & Asia.

DIGITIZATION – a global driving force for HEXPOL to relate to

Investments are being made in digitization to drive enhanced efficiency, improve customer experiences and establish new business models – among which, improved efficiency has been the clearest driving force to date.

Similarly, digital systems are being introduced to produce integrated customer information, build customer relationships and create transparency.

HEXPOL focuses on four areas of digitization – the customer experience, products and services, processes and internal support systems. Projects generating both internal and external gains are in progress in all of these areas.

Read more about the global driving forces on the following pages:

10–11 Urbanization
22–23 Mobility
36–37 Health
54–55 Circular economy

Financial Reports

Consolidated Income Statement

MSEK	Note	2019	2018
Sales	2	15,508	13,770
Cost of goods sold		-12,430	-10,846
Gross profit		**3,078**	**2,924**
Sales costs		-243	-202
Administration costs		-699	-484
Research and development costs		-105	-99
Other operating income		22	16
Other operating expense		-10	-5
Operating profit	2, 3, 4, 5, 6, 9, 10	**2,043**	**2,150**
Financial income	7	24	44
Financial expenses	7	-59	-33
Profit before tax		**2,008**	**2,161**
Tax	8	-466	-515
Profit after tax		**1,542**	**1,646**
of which, attributable to Parent Company's shareholders		1,542	1,646
Earnings per share before and after dilution, SEK		4.48	4.78

Consolidated statement of comprehensive income

MSEK	2019	2018
Profit after tax	1,542	1,646
Items that will not be re-classified to the income statement		
Re-measurement of defined benefit pension plans	-2	-2
Income tax relating to items that will not be re-classified to the income statement	0	0
	-2	**-2**
Items that may be re-classified to the income statement		
Cash flow hedges		
Hedge of net investment	7	122
Income tax relating to items that may be re-classified to the income statement	-2	-27
Translation difference	399	514
	404	**609**
Other comprehensive income after tax	**402**	**607**
Total comprehensive income	**1,944**	**2,253**
of which, attributable to Parent Company's shareholders	1,944	2,253

Consolidated Balance Sheet

MSEK	Note	2019	2018
ASSETS			
Fixed assets			
Intangible fixed assets	9	9,429	7,637
Tangible fixed assets	10	2,632	1,999
Financial fixed assets	20	3	25
Deferred tax assets	8	52	37
Total fixed assets		**12,116**	**9,698**
Current assets			
Inventories	11	1,391	1,405
Accounts receivable	12, 20	1,983	1,925
Current tax receivables		193	136
Other current receivables		68	74
Prepaid expenses and accrued income		50	54
Cash and cash equivalents	20	1,624	1,164
Total current assets		**5,309**	**4,758**
TOTAL ASSETS		**17,425**	**14,456**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		69	69
Other capital contributions		598	598
Reserves		1,857	1,455
Profit brought forward		5,690	4,824
Profit for the year		1,542	1,646
Total equity attributable to parent company's shareholders	13	**9,756**	**8,592**
Attributable to non-controlling interests		**0**	**0**
Total shareholders' equity		**9,756**	**8,592**
Non-current liabilities			
Interest-bearing liabilities	14, 20	2,754	2,308
Other liabilities	20	41	476
Deferred tax liabilities	8	580	539
Pension provisions	15	55	42
Total non-current liabilities		**3,430**	**3,365**
Current liabilities			
Interest-bearing current liabilities	14, 20	1,249	24
Accounts payable	20	1,953	1,913
Current tax liabilities		148	146
Other current liabilities	20	450	70
Other provisions	16	94	8
Accrued expenses	17, 20	345	338
Total current liabilities		**4,239**	**2,499**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**17,425**	**14,456**

Consolidated changes in shareholders' equity

	Attributable to Parent Company's shareholders				
	Share capital	Other capital contributions	Reserves	Profit brought forward	Total
MSEK					
December 31, 2017	**69**	**598**	**848**	**5,495**	**7,010**
2018					
Total comprehensive income					
Profit after tax	-	-	-	1,646	1,646
Other comprehensive income	-	-	607	-	607
Total comprehensive income	-	-	607	1,646	2,253
Transactions with shareholders					
Dividend	-	-	-	-671	-671
December 31, 2018	**69**	**598**	**1,455**	**6,470**	**8,592**
Effects of transition to IFRS 16 Leases				-6	-6
Converted opening equity	**69**	**598**	**1,455**	**6,464**	**8,586**
2019					
Total comprehensive income					
Profit after tax	-	-	-	1,542	1,542
Other comprehensive income	-	-	402	-	402
Total comprehensive income	-	-	402	1,542	1,944
Transactions with shareholders					
Dividend	-	-	-	-774	-774
December 31, 2019	**69**	**598**	**1,857**	**7,232**	**9,756**

Consolidated Cash Flow statements

MSEK	Note	2019	2018
Cash flow from operating activities	19		
Operating profit		2,043	2,150
Adjustment for non-cash items		447	259
Net financial items		-20	8
Tax paid		-512	-428
Cash flow from operations before changes in working capital		**1,958**	**1,989**
Cash flow from changes in working capital			
Changes in operating receivables		649	-194
Changes in operating liabilities		-246	11
Cash flow from operations		**2,361**	**1,806**
Investing operations			
Investments in tangible fixed assets		-278	-200
Sales of tangible fixed assets		0	0
Investments in intangible fixed assets		-8	-7
Acquisition of business combinations	21	-2,204	-2,190
Cash flow from investing activities		**-2,490**	**-2,397**
Financing activities	19		
Loans raised		2,690	2,871
Amortisation of liabilities		-1,398	-1,425
Amortisation of lease liabilities		-91	–
Dividend		-774	-671
Cash flow from financing activities		**427**	**775**
Cash flow for the year		**298**	**184**
Cash and cash equivalents at January 1		1,164	813
Exchange-rate differences in cash and cash equivalents		162	167
Cash and cash equivalents at December 31		**1,624**	**1,164**

Cash flow from operating activities

MSEK	2019	2018
Operating profit	2,043	2,150
Depreciation/amortisation/impairment	447	259
Change in working capital	403	-183
Sales of tangible fixed assets	0	0
Investments	-286	-207
Operating cash flow	**2,607**	**2,019**

Note 1 Accounting policies

HEXPOL's consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU. The Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, was also applied.

The Parent Company applies the Annual Accounts Act and RFR 2, Accounting for legal entities, as issued by the Swedish Financial Reporting Board. This means that the Parent Company applies the same accounting policies as the Group, except as outlined on page 75. The applied accounting policies correspond to those applied in the preceding year with the exception of the new IFRS applied commencing 1 January 2019. None of the amendments and interpretations of existing standards be applied as of financial years commencing 1 January 2019 had any effect on the consolidated or Parent Company's financial statements, with the exception of IFRS 16 – Leasing.

New and amended IFRS yet to come into effect – None of the new standards, amended standards or IFRIC interpretations that have been published are expected to have any impact on the consolidated or Parent Company's financial statements.

New standards 2019
As of 1 January 2019, IFRS 16 Leases replaced the former standard IAS 17 Leases and related interpretations IFRIC 4, SIC 15 and SIC 27. IFRS 16 entails the former distinction between operating leases and financial leases being removed for lessees and a majority of leases being recognized in the balance sheet.

On the entry into force of the standard, HEXPOL applied the simplified transition method, meaning that comparative data for previous periods are not presented. HEXPOL also chose not to re-assess whether a contract is a lease or not based on IFRS 16, choosing instead to apply the relief rule, applying the earlier classification. On transition, HEXPOL chose to apply the following relief rules:

- The lease liability is measured at the present value of the remaining payments applying the marginal loan rate as per the initial date of application.
- The right-of-use asset has been measured in accordance with a retroactive recalculation from the commencement of the agreement, applying however a discount rate based on a lessee's marginal loan rate as per the initial date of application.
- Leases with a remaining maturity of 12 months or less and leases for which the cost of the underlying asset is less than SEK 50,000 are not included in the liability or in the right-of-use asset in the Balance Sheet.
- To not apply the general method to agreements expiring within 12 months of the transition to IFRS 16. The leasing fees for these agreements were expensed on a straight-line basis over the remaining term of the lease.

HEXPOL's portfolio of leases comprises premises, machinery and equipment and vehicles. As a consequence of the transition, the Group's balance sheet total increased due to additional right-of-use assets and lease liabilities for leases previously classified as operating leases. In the Income Statement, the cost of the operating lease is replaced by the depreciation of the leased asset (the right-of-use asset) and an interest expense attributable to the lease liability. Accordingly, the lease fee is distributed between the amortization of the lease liability and the interest payments. This accounting is based on the view that the lessee is entitled to use the asset for a specific period of time and is, at the same time, obliged to pay for that entitlement.
On the transition, the present value of all remaining lease fees for previous operational leasing agreements were calculated applying HEXPOL's marginal loan rate. The effect of the transition on the balance sheet as of 1 January 2019 entailed the following items being recognized in the balance sheet.

MSEK	Previous accounting principles	Transitional effect	In accordance with IFRS 16
Assets			
Right-of-use asset	0	358	358
Prepaid expenses	12	-12	0
Shareholders' equity			
Profit brought forward	0	-6	-6
Liabilities			
Lease liabilities	0	365	365
– of which, non-current liabilities	0	280	280
– of which, current liabilities	0	85	85

In assessing the length of an agreement including extension and termination options, both business strategy and agreement-specific conditions are considered in determining whether HEXPOL is reasonably certain that it will exercise those options. In connection with the transition, the Group has considered whether not extending the agreement would entail significant expenses, such as expenses for moving when adjustments have been made to premises or if premises are situated in a strategically important location. Options for early redemption have also been considered if operations must be relocated, for example. The differences between the operating lease commitments that existed on 31 December 2018, in accordance with IAS 17, and the lease liability reported on 1 January 2019, in accordance with IFRS 16, are explained as follows.

MSEK	
Operating lease commitments as of 31 Dec. 2018	**305**
Commitments regarding short-term leases	–2
Commitments for leases where the underlying asset is of low value	–11
Financial lease commitments as of 31 Dec. 2018	0
Lease payments regarding extension options not considered under IAS 17	75
Lease liability gross as of 1 Jan. 2019	**367**
Discount effect of the Group's marginal loan rate (weighted average of 2.92% on transition)	–9
Lease liabilities as of 1 Jan. 2019	**358**

CONSOLIDATED FINANCIAL STATEMENTS
The Parent Company and the other companies over which the Parent Company has a direct or indirect controlling influence are included in the consolidated financial statements.

Subsidiaries are included in the consolidated financial statements as of the day upon which controlling influence is attained and divested companies up to the time when a controlling interest over them ceases. The consolidated financial statements have been prepared in accordance with the cost method, with the exception of certain financial instruments that have been measured at fair value.

The acquisition method is used to recognize the Group's business combinations. The consideration for the acquisition of a subsidiary comprises the fair value of transferred assets and liabilities that the Group assumes from previous owners of the acquired company. The consideration also includes the fair value of all assets and liabilities resulting from an agreement concerning a contingent consideration. Each contingent consideration is recognized at fair value on the acquisition date. Subsequent changes to the fair value of a contingent consideration are recognized in profit or loss. Identifiable acquired assets and assumed liabilities in a business combination are initially measured at fair value on the date of acquisition. Acquisition-related costs are expensed as they arise. Goodwill is measured as the amount by which the total consideration exceeds the fair value of identifiable acquired assets and assumed liabilities. If the purchase consideration is lower than the fair value of identifiable acquired assets and assumed liabilities, the difference is recognized directly in profit or loss.

In 2018, HEXPOL acquired 80 percent of the shares in the MESGO Group. According to the agreement, HEXPOL has an option to acquire the remaining shares, and shareholders without a controlling influence retain an option to sell their remaining shares to HEXPOL. The shareholder agreement that the Company has signed with shareholders without a controlling influence includes provisions on put/call options under which the holders of the minority interests are entitled to sell their shares to HEXPOL in accordance with a calculation formula, stipulated in the agreement, during specific windows of time until and including 30 June 2023. In the same way, HEXPOL is entitled to acquire the shares in accordance with this calculation formula during specific windows of time until and including 30 June 2023. IFRS 3 Business Combinations does not regulate how such contractual terms are to be addressed in the accounts. According to IAS 32 Financial Instruments: Presentation, the Group must recognize a liability for put issued options in its own equity instruments, that is, the obligation to purchase outstanding shares in the MESGO Group. The Group has chosen to recognize this liability in the acquisition analysis, that is, as if the Group has already acquired outstanding shares. On the balance sheet date, the Group recognizes the corresponding liability at fair value through profit or loss and as other liabilities in the Balance Sheet, see also Note 20. In the event that the options expire without being exercised, this is reported as a sale of shares in subsidiaries, that is, the liability is booked against equity. Accordingly, the share of capital and earnings of shareholders without a controlling influence is not reported.

Intra-Group transactions, balance-sheet items and unrealized gains and losses on transactions between Group companies are eliminated.

TRANSLATION OF FOREIGN CURRENCIES

Functional currency and reporting currency

The functional currency of the Parent Company is Swedish kronor (SEK), as is the reporting currency for the Parent Company and the Group.

Transactions and balance-sheet items

Transactions in foreign currency are translated to the functional currency based on the exchange rates prevailing on the transaction date. Foreign currency receivables and liabilities are recognized at the exchange rates prevailing on the balance sheet date. Exchange-rate gains and losses that arise are recognized in profit or loss.

When transactions constitute hedging that meets the requirements for hedge accounting of net investments, exchange-rate differences are recognized directly in other comprehensive income after adjustment for deferred taxes. Exchange-rate differences on operating receivables and operating liabilities are included in operating profit, while exchange-rate differences on financial receivables and liabilities are recognized in net financial items.

SUBSIDIARIES

The earnings and financial position of subsidiaries are prepared in the functional currency of each company. In the consolidated financial statements, the subsidiaries' earnings and financial position are translated into Swedish kronor (SEK) in the following manner:

- Revenues and expenses in income statements are translated at the average exchange rate for the applicable year, while assets and liabilities in the balance sheets are translated at the exchange rate prevailing on the balance-sheet date. Exchange-rate differences arising from translation are recognized as a separate item in other comprehensive income.
- Goodwill and adjustments of fair value arising in connection with an acquisition are treated as assets and liabilities of the acquired operation, and are translated at the exchange rate prevailing on the balance-sheet date.

ASSOCIATED COMPANIES

The equity method is applied for one minor associated company.

SEGMENT REPORTING

An operating segment is a part of the Group that conducts operations from which it can generate revenues and incur costs and for which independent financial information is available. For the HEXPOL Group, lines of business (business areas) represent the basis of division into operating segments. The Group is organized in two business areas: HEXPOL Compounding and HEXPOL Engineered Products.

Included in the segments' earnings, assets and liabilities are directly attributable items as well as items that can be allocated to the segments in a reasonable and reliable manner. Segment reporting for the operating segments comprises earnings up to operating revenues, and capital employed. Items in the Income Statement that are not allocated comprise financial income and financial expenses, and tax expenses. Assets and liabilities that have not been allocated to the segments are tax assets and tax liabilities and financial assets and financial liabilities. Internal billings between business areas occur at market value. In the presentation of the Group's geographical markets, the operations have been subdivided into the Group's key geographical markets, which are Europe, the Americas and Asia. Sales are recognized according to customer location, while assets are recognized according to the actual physical location of these assets.

OTHER CLASSIFICATIONS

Fixed assets and long-term liabilities consist of amounts expected to be recovered or paid after more than twelve months. Current assets and current liabilities consist only of amounts expected to be recovered or paid within twelve months.

REVENUES

The following principles are applied in revenue recognition:

Sales of goods

The Group's agreements with customers include only one kind of performance commitment, sales of goods. Revenue from sales of goods is recognized when the performance commitment is fulfilled, which occurs at a particular point in time. The agreements have short periods of validity. Sales are reported excluding VAT and at the transaction price determined in accordance with the customer agreement. The agreements include information on pricing, volume discounts, payment terms and delivery terms. The transfer of control of the goods to the customer occurs in accordance with the delivery terms in the various agreements. A customer may choose to collect the goods from the Company or to have the goods delivered. The proceeds from the sale are recognized at a particular point in time, when the goods have been delivered to the customer or collected by the customer. Variable compensation may be payable to customers under retroactive volume discounts, for which provisions are applied under accrued expenses in profit or loss, based on their anticipated value. Normally, neither accrued nor prepaid revenues are reported, that is, no contract balances are recognized – only accounts receivable following delivery. Normal payment terms are applied, meaning there are no financing component included in the agreements. The Group has no commitments in the form of returns.

RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure for research is expensed as incurred, while expenditure for development is capitalized as follows: Capitalization of development expenditures in the Group occurs only in exceptional cases and is only applied to new products where significant development expenditures are involved, where the products have a probable earnings potential that could accrue to the Group and the costs are clearly distinguishable from ongoing product development expenditure. Capitalized development expenditures are amortized according to the useful life of the assets.

INCOME TAX

Income tax expenses for the year consist of current and deferred tax. Tax is recognized in profit or loss, apart from when the tax pertains to items recognized in other comprehensive income or directly in shareholders' equity. In such cases, the tax is also recognized in other comprehensive income or shareholders' equity.

Income taxes comprise: Current tax, meaning the tax calculated on taxable earnings for the period, and adjustments regarding prior periods.

Deferred taxes comprise: Tax on temporary differences arising between the value of assets and liabilities for tax purposes and their carrying amount in the consolidated financial statements, deductible loss carry-forwards and other tax deductions. Deferred tax is also recognized for transactions included in other comprehensive income and shareholders' equity. Deferred tax is calculated applying tax rates that have been decided or announced on the balance-sheet date. Temporary differences on shares in subsidiaries are not recognized because it is not probable that these will be utilized in the foreseeable future. Deferred tax assets are recognized insofar as it is probable that future taxable surpluses will be available to offset them against.

LEASING

As of 1 January 2019, right-of-use assets and lease liabilities are recognized in the balance sheet. HEXPOL applies the relief rules regarding short-term leases with a maturity of 12 months or less and leases where the underlying asset has a value of less than SEK 50,000. Expenses incurred in connection with these leases are reported on a straight-line basis over the lease period as operating expenses in the income statement.

Lease liabilities

Lease liabilities are initially valued at the present value of the leasing fees that were not paid on the commencement date. These lease liabilities are recognized in the items interest-bearing liabilities and interest-bearing current liabilities in the balance sheet.

The term of the lease is determined as the non-cancellable period plus with periods in which the agreement can be extended or terminated early if HEXPOL is reasonably certain that it will exercise such options. When determining the length of the lease, all available information and circumstances indicating a financial value for exercising an extension option or not exercising an option to terminate the lease are taken into account. Options to extend or terminate the lease relate primarily to the Group's leases on buildings.

The lease payments include fixed payments (following deductions for any benefits in connection with the signing of the lease), variable lease fees dependent on an index or price, and amounts that are expected to be paid under residual value guarantees. In addition, the lease payments include the exercise price of any option to purchase the underlying asset or penalty fees payable upon termination if HEXPOL is reasonably certain that it will exercise these options. Variable lease fees not dependent on an index or price are expensed in the period to which they are attributable.

In the event that the implicit interest rate cannot easily be determined from the agreement, the marginal loan rate is applied in the present value calculation of lease payments. The marginal loan rate is determined by using the 12-month STIBOR model for each currency with a premium corresponding to the Group's external loan margins. HEXPOL has chosen not to divide the interest rate into different asset classes as this is not material. Following the commencement date of a lease, the lease liability increases to reflect the interest rate on the lease liability and decreases as lease payments are disbursed. In addition, the lease liability is reassessed as a result of agreement modifications, changes in the estimate of the lease term, changes in lease payments or changes in the assessment of whether to acquire the underlying asset or not.

Right-of-use assets

HEXPOL recognizes right-of-use assets in the balance sheet from the commencement date of the lease. The right-of-use assets are reported under the item tangible fixed assets in the balance sheet.

Right-of-use assets are valued at cost less deductions for accumulated depreciation and any impairment, and adjusted for revaluations of the lease liabilities. Cost includes the initial value of the attributable lease liability, direct expenses, any advance payments made on or before the commencement date of the lease after deduction of any incentives received, and an estimate of any restoration costs. Provided that HEXPOL is not reasonably certain that it will assume ownership of the underlying asset at the end of the lease, the right-of-use asset will be written off on a straight-line basis over the term of the lease or the useful life of the underlying asset, whichever is shorter.

Accounting principles for the comparison year

Until and including the 2018 financial year, HEXPOL applied IAS 17 – Leases. Under the earlier standard, leases under which a significant part of the risks and rewards of ownership are retained by the lessor were classified as operational leasing. Payments made during the term of the lease (less deductions of any incentive from the lessor) are expensed in the income statement on a straight-line basis over the term of the lease. The Group had no significant financial lease commitments.

GOODWILL

Goodwill comprises the difference between the acquisition cost and the fair value of the identified net assets of the acquired company on the date of acquisition. Acquisitions of less than 100 percent of an operation are considered on a case-by-case basis to determine whether full goodwill or partial goodwill is to be applied. Goodwill is tested at least annually to identify any impairment need and is measured at cost less any impairment losses.

TANGIBLE AND OTHER INTANGIBLE FIXED ASSETS

Tangible and other intangible fixed assets are recognized at cost less accumulated depreciation/amortization according to plan and any impairment losses.

DEPRECIATION/AMORTISATION

Depreciation/amortization is performed on a straight-line basis across the useful life of the asset based on the depreciable/amortizable amount (cost less estimated residual value) and is based on the useful life of the asset. At a minimum, the useful life and residual value of the assets are revised at the end of each financial year.

The following useful lives are applied:

Development work	3–10 years
Patents and trademarks	20 years
Other intangible assets	3–15 years
IT equipment	3–8 years
Machinery and equipment	3–15 years
Office buildings	20–50 years
Industrial buildings	20–50 years
Land improvements	5–30 years

DEPRECIATION OF COMPONENTS

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is recognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

IMPAIRMENT LOSSES

Goodwill is analyzed on an annual basis with regard to any impairment requirements. Other assets are analyzed for indications of impairment requirements, that is, an asset's carrying amount exceeds its recoverable amount. The recoverable value is the higher of the asset's net realizable value and the value in use, meaning the discounted present value of future cash flows. Previous impairment losses are reversed insofar as impairment is no longer warranted, although goodwill impairments are never reversed.

INVENTORIES

Inventories are valued according to the lowest value principle, meaning at the lower of cost and net realizable value at the balance-sheet date. The cost is measured in accordance with the first-in first-out principle. For manufactured goods, the cost comprises the cost of raw materials, direct payroll costs, other direct costs and a portion of indirect manufacturing costs. Net realizable value comprises the selling price less variable selling costs. Deductions are made for internal gains generated through intra-Group sales.

FINANCIAL INSTRUMENTS

Financial instruments that are recognized in the Balance Sheet include cash and cash equivalents, accounts receivable, other financial receivables, accounts payable, loans payable, contingent considerations, other financial liabilities and derivatives. A financial asset or financial liability is recognized from the Balance Sheet when all benefits and risks associated with ownership have been transferred. Financial derivatives are recognized continuously at fair value. Financial assets and liabilities are recognized in, and deducted from, the Balance Sheet applying settlement-date accounting.

Classification of financial instruments

In accordance with IFRS 9

Financial instruments are classified in the following categories: Financial assets and financial liabilities measured at fair value through profit or loss, and financial assets and financial liabilities measured at amortized cost. The classification is based on the Company's business model and the nature of the instrument.

Calculation of fair value

The fair value of listed financial instruments is based on the appropriate market quotation on the balance-sheet date. For unlisted financial instruments, the value is determined by applying recognized measurement techniques, whereby the Group makes assumptions that are based on the market conditions prevailing on the balance-sheet date. Market rates form the basis for the calculation of fair value of long-term loans.

Financial assets and liabilities recognized at fair value through profit or loss

Financial derivative instruments are recognized at fair value with changes in value in profit or loss, except when the derivative fulfils all the criteria for cash-flow hedging, in which case the change in value is recognized in other comprehensive income on the date that the hedged item is recognized. When establishing fair value, official market listings on the balance-sheet date are used, and valuations in accordance with Level 2. Additional purchase considerations and liabilities for put options are recognized as a financial liability measured at fair value with changes in value in profit or loss, and are valued in accordance with Level 3.

Financial assets and liabilities valued at amortized cost

Financial assets and liabilities are initially measured at fair value plus transaction costs and, subsequently, at amortized cost, less any provisions for impairment. Receivables are initially recognized at fair value and subsequently at amortized cost applying the effective interest method, less any provision for expected and incurred loan losses. Provisions for expected loan losses are applied in accordance with the simplified method, meaning that expected loan losses are reserved for the remaining maturity. Impairment of accounts receivables are reported in operating expenses. Financial liabilities are measured at amortized cost, applying the effective interest method.

Interest income

Interest income is recognized following accrual over the maturity periods, applying the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise liquid funds and credit balances at banks and similar institutions.

HEDGE ACCOUNTING

Hedge accounting is applied if the hedging actions taken have the stated objective of constituting a hedge, have a direct correlation to the hedged item and effectively hedge the item. An effective hedge generates financial effects that offset those that arise through the hedged position. When hedging fair value, the change in the fair value of the hedging instrument is recognized in profit or loss together with the change in the value of the liability or asset to which the risk hedging applies. The value of the net assets of foreign subsidiaries, including goodwill and other adjustments of fair value, is partly hedged through foreign-currency loans. These loans are recognized at the exchange rate prevailing on the balance-sheet date and the exchange rate differences on the loans are recognized in other comprehensive income.

Cash flow hedges

The effective portion of changes in fair value of derivatives that are designated as cash flow hedges and which meet the conditions in terms of hedge accounting are recognized in other comprehensive income and accumulated amounts in equity. The gain or loss relating to the ineffective portion is recognized immediately in the Income Statement as other income or expenses. Amounts accumulated in equity are reclassified to the Income Statement in the periods when the hedged item affects earnings.

PENSION AND SIMILAR COMMITMENTS

The Group predominantly has defined-contribution pension obligations. There are also employees with defined-benefit pensions. A defined contribution pension plan is a plan in which the Group pays fixed fees to a separate legal entity and the cost of defined-contribution pension obligations is expensed as incurred.

In a defined benefit pension plan, the amount of the post-service pension benefit an employee will receive is based on factors such as age, period of service and salary. The liability recognized in the Balance Sheet in respect of defined benefit pension plans is the present value of obligation less the fair value of plan assets on the balance-sheet date. The calculation is made in accordance with actuarial models.

Actuarial gains and losses are recognized in other comprehensive income. Defined-benefit plans are items for which the insurer (Alecta in Sweden) cannot specify the Group's share of the total plan assets and, pending this information becoming available, pension obligations are recognized as defined contribution plans. At 31 December 2019, Alecta's surplus in the form of the collective consolidation level was 148 percent (142).

PROVISIONS
The Group recognizes provisions when the Group has a legal or informal undertaking as a result of the occurrence of an event and it is likely that an outflow of resources will be required to settle the under-taking and a reliable estimate can be made of the amount. A provision for restructuring is recognized when a detailed formal action plan has been established and expectations have been created among those who will be affected by the actions.

RELATED-PARTY TRANSACTIONS
The Group's transactions with related parties primarily pertain to purchasing from associated companies. All transactions are priced in accordance with market terms and prices; refer to Note 3 for further information. In addition, compensation is paid to the Board of Directors and senior executives; refer to Note 4.

IMPORTANT ASSESSMENTS AND ASSUMPTIONS
The Board of Directors makes accounting estimates and assumptions that affect the application of the accounting policies and the recognized figures for assets, liabilities, revenues and expenses. These estimates are based on historical experience and on various assumptions considered reasonable under the prevailing conditions. The actual outcome could deviate from these accounting estimates. The areas including such assessments and assumptions and that could have a material impact on consolidated profit and the Group's financial position include assessments of the present value of forecast cash flows when testing possible impairment of goodwill (Note 9), shares in subsidiaries (Note 32), assessments of assets and liabilities identified in connection with acquisitions (Note 21) and calculations of financial liabilities to minority shareholders (Note 20).

ACCOUNTING POLICIES IN THE PARENT COMPANY
The Parent Company applies the same accounting policies as the Group with the following exceptions:

- In the Parent Company, in accordance with RFR 2, Group contributions received are recognized as financial income, in accordance with the main rule.
- In the Parent Company, shares in Group companies are recognized at cost before any impairment. Impairment testing is carried out when there are indications of impairment, that is, when there are indications that the book value exceeds the recoverable amount. The recoverable amount corresponds to fair value or value in use, whichever is highest.
- In the Parent Company, financial assets and liabilities are initially reported at fair value plus transaction costs and subsequently at amortized cost. The Parent Company applies IFRS9, but since all accounts receivable are intra-group, credit risk is limited.

The Parent Company continues to apply the exemption included for legal entities in RFR 2 and expenses all leases on a straight-line basis over the term of the lease. Accordingly, right-of-use assets and lease liabilities are not included in the Parent Company's balance sheet. However, leases are identified in the same way as in the Group, that is, an agreement is, or contains, a lease if the agreement assigns the right to determine the use of an identified asset for a certain period in exchange for compensation.

Note 2 Segment reporting

Information about operating segments
The Group's operations are reported in two business areas: HEXPOL Compounding and HEXPOL Engineered Products.

HEXPOL Compounding manufactures advanced polymer compounds. HEXPOL Engineered Products manufactures gaskets for plate heat exchangers, forklift wheels and castor wheel applications.

Assets and liabilities included in each business area pertain to operating assets, such as receivables, inventories, other receivables, tangible and intangible fixed assets, as well as accrued income and operating liabilities, such as account payables, other liabilities, other provisions and accrued expenses. Unallocated assets and liabilities relates to cash and cash equivalents, taxes and loans and are not reported by business area. No individual customer accounts for more than 10 percent of the Group's sales.

	HEXPOL Compounding		HEXPOL Engineered Products		Group	
MSEK	2019	2018	2019	2018	2019	2018
Sales, external	14,465	12,745	1,043	1,025	15,508	13,770
Operating profit	1,910	2,006	133	144	2,043	2,150
Operating margin, %	13.2	15.7	12.8	14.0	13.2	15.6
Net financial items					–35	11
Tax					–466	–515
Profit for the year					**1,542**	**1,646**
Operating assets	15,043	12,617	495	477	15,538	13,094
Unallocated assets	-	-	-	-	1,887	1,362
Group Total	**15,043**	**12,617**	**495**	**477**	**17,425**	**14,456**
Operating liabilities	2,310	2,203	113	126	2,423	2,329
Unallocated liabilities	-	-	-	-	5,246	3,535
Group Total	**2,310**	**2,203**	**113**	**126**	**7,669**	**5,864**
Investments	262	193	24	14	286	207
Depreciation/ amortisation	415	234	32	25	447	259

	Sales per recipient country		Fixed assets	
MSEK	2019	2018	2019	2018
Geographic region				
Sweden	446	427	330	304
Europe excl. Sweden	5,173	4,347	4,305	4,283
USA	6,968	6,309	7,018	4,634
America excl. USA	2,215	1,945	158	159
Asia	706	742	305	318
Total	**15,508**	**13,770**	**12,116**	**9,698**

	HEXPOL Compounding		HEXPOL Engineered Products	
MSEK	2019	2018	2019	2018
Sales per geographic region and business area				
Europe	5,080	4,242	539	532
America	8,907	7,986	276	268
Asia	478	517	228	225
Total	**14,465**	**12,745**	**1,043**	**1,025**

Note 3 Related-party transactions

Transactions between Group companies occur on market-based conditions. In 2019, the Group purchased energy for 12 MSEK (13) from the associated company, Megufo AB, in Sweden.

On December 31, 2019, the Group had a liability of 1 MSEK (2) to this associated company.

See also note 4.

Note 4 Employees and personnel costs

MSEK	2019	2018
Costs for remuneration of employees		
Salaries and remuneration, etc.	1,772	1,532
Total	**1,772**	**1,532**
Pension costs	34	23
Social-security costs	263	230
Total	**297**	**253**

	2019		2018	
Average number of employees		**of whom men**		**of whom men**
Sweden	339	69 %	332	82 %
Belgium	56	82 %	63	83 %
Czech Republic	236	90 %	236	88 %
Germany	218	89 %	217	88 %
Mexico	399	85 %	307	88 %
Luxembourg	4	75 %	4	75 %
USA	1,761	89 %	1,564	88 %
China	326	66 %	347	67 %
Sri Lanka	942	93 %	960	94 %
UK	293	88 %	289	89 %
Spain	88	90 %	85	91 %
Italy	155	80 %	43	79 %
Turkey	10	60 %	3	67 %
Poland	17	59 %	4	50 %
Total	**4,844**	**86 %**	**4,454**	**86 %**

MSEK	2019	2018
Personnel costs per country		
Sweden	236	232
Belgium	44	48
Czech Republic	77	71
Germany	116	108
Mexico	85	58
Luxembourg	21	19
USA	1,106	950
China	53	56
Sri Lanka	53	48
UK	123	116
Spain	50	49
Italy	99	29
Turkey	2	0
Poland	4	1
Total	**2,069**	**1,785**

Principles for remuneration of the Board of Directors and senior executives

Remuneration is paid to the Board of Directors in accordance with resolutions from the Annual General Meeting.

The Remuneration Committee submits proposals to the Board of Directors for remuneration of the President and other senior executives. Remuneration of the President and other senior executives comprises basic salary, variable remuneration, other benefits and pension. The variable remuneration is based on operating profit, alternatively profit after tax, earnings per share and the return on capital employed.

Between the company and the President, the President is entitled to employment termination notice of six months. If employment termination is initiated by the company, the period of notice is 24 months. For other senior executives, the period of notice is six months and from the company the norm is 12 months. There are no agreements concerning severance pay.

For information of incentive program, see note 13.

	Board fee		Committee fee		Total	
KSEK	2019	2018	2019	2018	2019	2018
Remuneration of the Board of Directors						
Georg Brunstam, chairman	900	875	100	100	1,000	975
Alf Göransson	390	370	-	-	390	370
Kerstin Lindell	390	370	-	-	390	370
Jan-Anders E. Månson	390	370	-	-	390	370
Malin Persson	390	370	125	100	515	470
Märta Schörling Andreen	390	370	175	150	565	520
Gun Nilsson	390	370	250	200	640	570
Total	**3,240**	**3,095**	**650**	**550**	**3,890**	**3,645**

	Basic salary		Variable salary		Pension costs		Car, housing and other benefits		Total	
KSEK	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Remuneration of senior executives										
Mikael Fryklund, President and CEO	8,650	8,083	-	8,238	2,516	2,399	168	168	11,334	18,888
Other members of Group management, 6 (5) persons	27,682	24,288	5,633	24,354	2,616	1,901	865	655	36,796	51,198
Total	**36,332**	**32,371**	**5,633**	**32,592**	**5,132**	**4,300**	**1,033**	**823**	**48,130**	**70,086**

Note 5 Fees and cost remuneration paid to auditors

MSEK	2019	2018
EY		
Audit assignment	11	8
Audit activities in addition to audit	1	1
Tax consultancy	0	0
Other services	0	0
Total	**12**	**9**

Note 6 Breakdown of expenses by nature

MSEK	2019	2018
Employee benefits expenses	2,069	1,785
Depreciation/amortisation/impairment	447	259
Input costs and other external expenses	10,961	9,587
Other operating expenses	10	5
Total	**13,487**	**11,636**

No development expenditures were capitalised during 2019.

Note 7 Financial income and expenses

MSEK	2019	2018
Assets and liabilities valued at amortized cost		
Interest income from accounts receivable	0	0
Interest income other financial assets	20	21
Total interest income according to the effective-interest-rate method	**20**	**21**
Other financial income		
Exchange rate differences on financial items	4	23
Total	**4**	**23**
Total financial income	**24**	**44**
Assets and liabilities valued at amortized cost		
Interest expense liabilities to credit institutions	-33	-14
Interest expense other financial liabilities	-1	-4
Total interest expense according to the effective-interest-rate method	**-34**	**-18**
Other financial expenses		
Expected credit losses on financial assets	0	0
Interest expense lease liabilities	-14	-
Exchange rate differences on financial items	-5	-11
Other	-6	-4
Total	**-25**	**-15**
Total financial expenses	**-59**	**-33**
Net financial items	**-35**	**11**

Note 8 Taxes

MSEK	2019	2018
Current tax expense		
Tax expense on profit for the year	−430	−465
Total	**−430**	**−465**
Deferred tax expense		
Deferred tax pertaining to temporary differences	−39	−47
Utilised/revaluation of loss carry forwards	3	−3
Total	**−36**	**−50**
Total recognised tax expense	**−466**	**−515**

At December 31, 2019, the Group had loss carry forwards of 11 MSEK (17) that had not been capitalised due to uncertainty concerning their value for tax purposes. Of the total, 9 MSEK (17) expires within five years.

MSEK	2019	%	2018	%
Reconciliation of effective tax				
Profit before tax	2,008		2,161	
Tax according to applicable tax rate for the Parent Company	−430	−21	−475	−22
Effect of other tax rates for foreign subsidiaries	−16	−1	−22	−1
Non-deductible expenses	−13	−1	−10	0
Non-taxable income	19	1	30	1
Deductible goodwill amortisation	1	0	5	0
Revaluation of tax-loss carry forwards/temporary differences	3	0	−10	0
Tax attributable to prior years	−30	−1	−33	−2
Total reported tax expense	**−466**	**−23**	**−515**	**−24**

	Opening balance		Recognised in profit/loss		Acquisitions		Recognised directly in comprehensive income		Translation differences		Closing balance	
MSEK	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Deferred tax assets/liabilities												
Intangible assets	−382	−210	−24	−23	10	−140	-	-	2	−9	−394	−382
Tangible assets	−129	−108	−23	−18	-	-	-	-	−3	−3	−155	−129
Current assets	19	22	−7	1	-	-	-	-	1	−4	13	19
Operating liabilities	−13	3	16	−9	-	-	-	-	0	−7	3	−13
Loss carry forwards	0	3	3	−3	-	-	-	-	0	0	3	0
Liabilities	3	28	−1	2	-	-	−1	−27	1	0	2	3
Total	**−502**	**−262**	**−36**	**−50**	**10**	**−140**	**−1**	**−27**	**1**	**−23**	**−528**	**−502**

Note 9 Intangible fixed assets

MSEK	Goodwill 2019	Goodwill 2018	Other intangible assets 2019	Other intangible assets 2018	Total 2019	Total 2018
Accumulated acquisition value						
Opening balance, January 1	6,909	4,978	931	409	7,840	5,387
Acquisitions*	1,671	1,583	32	483	1,703	2,066
Investments	-	-	8	7	8	7
Reclassification	-	-	0	2	0	2
Translation difference	154	348	11	30	165	378
Closing balance, December 31	**8,734**	**6,909**	**982**	**931**	**9,716**	**7,840**
Accumulated amortisation						
Opening balance, January 1	−11	−11	−192	−149	−203	−160
Amortisation according to plan for the year	-	-	−78	−33	−78	−33
Reclassification	-	-	0	0	0	0
Translation difference	0	0	−6	−10	−6	−10
Closing balance, December 31	−11	−11	−276	−192	−287	−203
Carrying amount, December 31	**8,723**	**6,898**	**706**	**739**	**9,429**	**7,637**

MSEK	2019	2018
Goodwill distributed by operating segment		
HEXPOL Compounding	8,693	6,870
HEXPOL Engineered Products	30	28
Closing balance, December 31	**8,723**	**6,898**

*Includes adjustments of previous preliminary purchase price allocation, see note 21.

Other intangible assets pertain mainly to acquired customer relations and remaining amortisation period is between 6 and 14 years. Other intangible assets do not include any significant amounts in respect of capitalized development costs.

Goodwill and other assets are impairment tested annually or more frequently if there is an indication of a value decline. Such testing is based on the Group's cash generating units, which are the Group's two business areas. The recoverable value is the higher of the asset's net realisable value and the value in use, meaning the discounted present value of future cash flows.

When calculating the present value of future cash flows, a cost of capital (WACC) of 9,0 percent before tax (9.3) has been used for both operating segments, since the risk profile is considered to be similar. In the calculation of WACC, the fact that the operations are financed by means of loans and shareholders' equity has been taken into account. The cost of shareholders' equity is based on expectations regarding a certain return on invested capital in the financial market. The cost of borrowed capital is based on borrowing costs in the financial market. Specific risks are included in the calculation by applying individual beta values and these are updated annually based on available market data. The calculation is based on the three-year strategic plan, approved by the Board of Directors, followed by assumed annual growth of 2 percent (2). The most important assumptions involves sales growth and development of operating margin, and are based on experience and current information on the market development. According to calculations, there is no impairment requirement.

A sensitivity analysis shows that a 50-percent decrease in sustainable growth, an increase in WACC by 2 percentage points and a decline in sustainable profitability (operating profit before, depreciation, amortisation and impairment) by 2 percentage points would still not result in the need for impairment in any operating segment.

Note 10 Tangible fixed assets and operational leasing

MSEK	Land and buildings 2019	Land and buildings 2018	Machinery and equipment 2019	Machinery and equipment 2018	Total 2019	Total 2018
Tangible fixed assets						
Accumulated acquisition value						
Opening balance, January 1	1,222	1,077	4,302	3,835	5,524	4,912
Acquisitions	7	77	228	114	235	191
Investments	7	6	252	194	259	200
Divestments, disposals	0	-5	-30	-33	-30	-38
Reclassification	19	10	-19	-22	0	-12
Translation difference	34	57	129	214	163	271
Closing balance, December 31	**1,289**	**1,222**	**4,862**	**4,302**	**6,151**	**5,524**
Accumulated depreciation value						
Opening balance, January 1	-495	-449	-3,020	-2,699	-3,515	-3,148
Depreciation according to plan for the year	-42	-27	-192	-201	-234	-228
Divestments, disposals	0	4	19	31	19	35
Reclassification	0	0	0	0	0	0
Translation difference	-14	-23	-141	-151	-155	-174
Closing balance, December 31	-551	-495	-3,334	-3,020	-3,885	-3,515
Accumulated impairment						
Opening balance, January 1	-3	-4	-7	-9	-10	-13
Impairment*	-16	1	-35	1	-51	2
Translation difference	0	0	0	1	0	1
Closing balance, December 31	-19	-3	-42	-7	-61	-10
Carrying amount, December 31	**719**	**724**	**1,486**	**1,275**	**2,205**	**1,999**
Leased assets**	351	-	76	-	427	-
Book value	**1,070**	**724**	**1,562**	**1,275**	**2,632**	**1,999**

*Refers to closing of two production units.

** For further information on leased assets, see next page.

MSEK	2019	2018
Distribution of depreciation/amortisation/impairment of tangible and intangible assets for the year		
Costs of goods sold	414	245
Selling costs	4	1
Administration costs	26	11
Product development costs	3	2
Total	**447**	**259**

HEXPOL distribute its leasing agreements into the following categories of right of use assets: premises, production and office equipment and vehicles. The following table present the closing balance of the right of use assets and lease liabilities and changes during the year:

	Right of use assets			
	Land and buildings	Machinery and equipment	Total	Lease liabilities
MSEK				
Opening balance, January 1	262	96	**358**	365
Additional agreements	130	16	**146**	146
Depreciation of right of use assets	-46	-38	**-84**	-
End of agreements	0	-1	**-1**	-1
Revalutation of agreements	0	0	**0**	0
Translation difference	5	3	**8**	9
Interest expense lease liabilities	-	-	**-**	13
Leasing fees	-	-	**-**	-91
Closing balance, December 31	**351**	**76**	**427**	**441**

The amount that are attributable to leasing activities and are recognized in the income statement during the year are presented below.

MSEK	2019
Depreciation of right of use assets	-84
Interest expense lease liabilities	-14
Expenses relating to short-term lease agreements	0
Expenses relating to agreements where the underlying asset is of low value	0
Expenses for variable leasing fees	0
Result of ended agreements	0
Total expenses related to leasing activities	**-98**

HEXPOL recognice a cash outflow attributable to leasing agreements amounting to 78 MSEK for the financial year 2019. For a term analysis of the Group's lease liabilities, see note 20.

Disclosure regarding the comparative year in which IAS 17 was applied
Expensed leasing fees for operational leasing amounted to 63 MSEK for the Group during 2018. The leasing fees refers mainly to lease of premesis, production- and office equipment and vehicles, where leasing agreements run with up to twelve months notice period.

Future minimum leasing fees for non-cancellable operational leasing agreements during the comparison year is presented below:

MSEK	2018
Within one year	66
Between one and five years	146
Longer than five years	93
Total	**305**

Note 11 Inventories

MSEK	2019	2018
Raw materials	931	983
Goods in production	72	48
Finished goods	388	374
Total	**1,391**	**1,405**

No significant impairments have been made during 2019 and 2018.

Note 12 Accounts receivable

MSEK	2019	2018
Age distribution of accounts receivable		
Not due	1,675	1,555
Past due, 1-30 days	250	292
Past due, 31-60 days	34	47
Past due, more than 60 days	24	31
Accounts receivable	**1,983**	**1,925**

MSEK	2019	2018
Provisions for bad debt losses		
Opening balance	-28	-24
Provision for the year	-8	-6
Actual losses	7	4
Reversal	1	0
Translation differences	-1	-2
Closing balance	**-29**	**-28**

MSEK	Not due	Past due, 1-30 days	Past due, 31-60 days	Past due, more than 60 days	Total
December 31, 2019					
Reported amount of accounts receivable - gross	1,675	253	35	49	2,012
Credit loss reserve	0	-3	-1	-25	-29
Closing balance	**1,675**	**250**	**34**	**24**	**1,983**

MSEK	Not due	Past due, 1-30 days	Past due, 31-60 days	Past due, more than 60 days	Total
December 31, 2018					
Reported amount of accounts receivable - gross	1,555	296	50	52	1,953
Credit loss reserve	0	-4	-3	-21	-28
Closing balance	**1,555**	**292**	**47**	**31**	**1,925**

Note 13 Shareholders' equity

	Class A shares		Class B shares		Total	
	2019	2018	2019	2018	2019	2018
Changes in the number of shares						
Opening balance, January 1	14,765,620	14,765,620	329,435,660	329,435,660	344,201,280	344,201,280
Closing balance, December 31	**14,765,620**	**14,765,620**	**329,435,660**	**329,435,660**	**344,201,280**	**344,201,280**

	2019	2018
Average number of shares	344,201,280	344,201,280

	Class A shares	Class B shares	Total
Number of votes	147,656,200	329,435,660	477,091,860

Each class A share entitles the holder to ten votes and each class B share to one vote.

The Annual General Meeting in April 2016, resolved to implement an incentive program (2016/2020) for senior executives and key employees through a directed issue of maximum 2,100,000 subscription warrants. During 2016, 1,408,000 subscription warrants have been subscribed for by 39 senior executives and key employees. The issue rate was SEK 9 per subscription warrant and every warrant give the right to subscribe for 1.01 new class B shares at subscription rate SEK 88.70, adjusted for special dividend in May 2017 according to the warrant terms. During 2017, 225,000 subscription warrants was subscribed for by 1 senior in May 2017 according to the warrant terms. During 2017, 225,000 subscription warrants was subscribed for by 1 senior class B share at subscription rate SEK 88.70. The warrants gives the right to subscribe for shares during the period June 1, 2019 – December 31, 2020.

Note 14 Interest-bearing liabilities

MSEK	2019	2018
Non-current liabilities		
Liabilities to credit institutions	2,410	2,308
Lease liabilities	344	-
Non-current liabilities	**2,754**	**2,308**
Current liabilities		
Liabilities to credit institutions	1,152	24
Lease liabilities	97	-
Current liabilities	**1,249**	**24**

	Utilised	Un-utilised	Utilised	Un-utilised
MSEK	2019		2018	
Bilateral loan, 125 MUSD	-	-	310	811
Bilateral loan, 1,500 MSEK	-	-	990	510
Bilateral loan, 1,500 MSEK	940	560	990	510
Bilateral loan, 2,000 MSEK	1,470	530	-	-
Other non-current liabilities	-	-	18	-
Lease liabilities	344	-	-	-
Total non-current liabilities	**2,754**		**2,308**	
Bilateral loan, 125 MUSD	180	985	-	-
Bilateral loan, 1,500 MSEK	920	580	-	-
Other current liabilities	52	-	24	-
Lease liabilities	97	-	-	-
Total current liabilities	**1,249**		**24**	

The Group has the following major credit agreements with Nordic banks:
- A five-year credit agreement with a limit of 125 MUSD that will fall due in February 2020.
- A three-year credit agreement with a limit of 1,500 MSEK that will fall due in August 2020.
- A three-year credit agreement with a limit of 1,500 MSEK that will fall due in September 2022.
- A three-year credit agreement with a limit of 2,000 MSEK that will fall due in July 2022.

The three-year credit agreements with a limit of 1,500 MSEK has an option to extend twice, one year at a time, where two extensions have been made for one of the loan to August 2020. The three-year credit agreement that fall due in September 2022 has been extended once. All loans are amortisation free and carry floating interest at one-month and three-month period. All bilateral credit agreements include financial covenants, all of which were fulfilled at December 31, 2019.

Information of changes in liability, note 19. Term analysis, note 20.

Note 15 Pension provisions

MSEK	2019	2018
Change in provision		
Opening balance, January 1	42	21
Acquisitions	9	19
Provisions for the year	4	2
Closing balance, December 31	**55**	**42**

The Group has pension provisions in a Swedish subsidiary, in subsidiaries in Sri Lanka and in subsidiaries in Italy and USA.

Note 16 Other provision

	Restructuring programe		Other provisions		Total	
MSEK	2019	2018	2019	2018	2019	2018
Opening balance	3	3	5	2	8	5
Provision for the year	131	-	13	4	144	4
Utilised during the year	-59	-	-2	-2	-61	-2
Translation difference	3	-	0	1	3	1
Closing balance	**78**	**3**	**16**	**5**	**94**	**8**

Closing balances for restructuring programe refers to reorganizations and concentrations within the business areas and are expected to be utilised during the year.

Note 17 Accrued expenses

MSEK	2019	2018
Personnel-related expenses	197	227
Accrued expenses for goods and services	121	87
Other	27	24
Total	**345**	**338**

Note 18 Pledged assets and contingent liabilities

MSEK	2019	2018
Pledged assets		
Current assets	6	8
Total	**6**	**8**
Contingent liabilities		
Guarantee for the benefit of associated companies	0	0
Total	**0**	**0**

Note 19 Cash flow statement

MSEK	2019	2018
Financial items received and paid		
Interest income received	24	44
Interest expenses paid	-44	-36
Total	**-20**	**8**
Adjustments for non-cash items		
Depreciation/amortisation/impairment	447	259
Total	**447**	**259**

Cash flow statement - Change in liabilities in financing activities		**Cash flows**	**Non-cash changes** **Acquisitions**	**Non-cash changes** **Leasing agreements**	**Non-cash changes** **Translation difference**	
MSEK	2019-01-01					2019-12-31
Interest bearing liabilities	2,332	1,230	-	-	0	3,562
Lease liabilities	365	0	-	76	0	441
Supplementary purchase price	27	-27	-	-	0	0
Liabilities arising from financing activities	**2,724**	**1,203**	**-**	**76**	**0**	**4,003**

Cash flow statement - Change in liabilities in financing activities		**Cash flows**	**Non-cash changes** **Acquisitions**	**Non-cash changes** **Leasing agreements**	**Non-cash changes** **Translation difference**	
MSEK	2018-01-01					2018-12-31
Interest bearing liabilities	840	1,466	26	-	0	2,332
Derivatives instrument	2	-2	-	-	0	0
Supplementary purchase price	42	-15	-	-	0	27
Liabilities arising from financing activities	**884**	**1,449**	**26**	**-**	**0**	**2,359**

Note 20 Financial instruments and risk management

Financial instruments per category and measurement level. As regards the risks and the risk management, see page 52 in the Board of Directors' Report.

December 31, 2019	**Financial assets measured at amortized costs**	**Financial assets/liabilities measured at fair value through profit or loss** **Carrying value**	**Financial assets/liabilities measured at fair value through profit or loss** **Measurement level**	**Total**
MSEK				
Assets in the balance sheet				
Non-current financial assets	3	-		3
Accounts receivable	1,983	-		1,983
Cash and cash equivalents	1,624	-		1,624
Total	**3,610**	**-**		**3,610**
Liabilities in the balance sheet				
Interest-bearing non-current liabilities	2,410	-		2,410
Interest-bearing non-current lease liabilities	344			344
Interest-bearing current liabilities	1,152	-		1,152
Interest-bearing current lease liabilities	97			97
Accounts payable	1,953	-		1,953
Other liabilities	61	-		61
Liabilities to minority shareholders	-	389	3	389
Accrued expenses, provisions	345	-		345
Total	**6,362**	**389**		**6,751**

December 31, 2018	**Financial assets measured at amortized costs**	**Financial assets/liabilities measured at fair value through profit or loss** **Carrying value**	**Financial assets/liabilities measured at fair value through profit or loss** **Measurement level**	**Total**
MSEK				
Assets in the balance sheet				
Derivate instruments	-	0	2	0
Non-current financial asset	25	-		25
Accounts receivable	1,925	-		1,925
Cash and cash equivalents	1,164	-		1,164
Total	**3,114**	**0**		**3,114**
Liabilities in the balance sheet				
Interest-bearing non-current liabilities	2,308	-		2,308
Liabilities to minority shareholders	-	476	3	476
Interest-bearing current liabilities	24	-		24
Accounts payable	1,913	-		1,913
Other liabilities	189	-		189
Supplementary purchase price	-	27	3	27
Accrued expenses, provisions	346	-		346
Total	**4,780**	**503**		**5,283**

Fair value is consistent in all material respects with the carrying value in the balance sheet.

Derivate instruments outstanding for managing currency risks is related to financial assets and liabilities.
The Parent Company applies hedge accounting including forward exchange contracts to protect exposure of intra-Group loans and receivables in foreign currencies. The revaluation is recognised in the income statement. All forward contracts fall due within one year and are measured at level 2 in the fair value hierarchy.

	Nominal value	Nominal value
MSEK	2019	2018
Forward contracts outstanding, December 31		
Currency forward contracts	-	148

Currency distribution	Nominal value	Average hedging rate	Nominal value	Average hedging rate
CZK/SEK	-	-	148	0.39

Term analysis, December 31	Total amount		Fall due within 1 year		Fall due within 1-2 years		Fall due within 2-5 years		Fall due after 5 years	
MSEK	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Non-current liabilities										
Liabilities to banks and credit institutions	2,410	2,308	-	-	-	1,318	2,410	990	-	-
Lease liabilities	428	-	-	-	82	-	139	-	207	-
Liability to minority shareholder	-	476	-	-	-	476	-	-	-	-
Total non-current liabilities	**2,838**	**2,784**	**-**	**-**	**82**	**1,794**	**2,549**	**990**	**207**	**-**
Current liabilities										
Liabilities to banks and credit institutions	1,152	24	1,152	24	-	-	-	-	-	-
Lease liabilities	52	-	52	-	-	-	-	-	-	-
Liabilities to minority shareholders	389	-	389	-	-	-	-	-	-	-
Derivative instruments	-	0	-	0	-	-	-	-	-	-
Accounts payable	1,953	1,913	1,953	1,913	-	-	-	-	-	-
Supplementary purchase price	-	27	-	27	-	-	-	-	-	-
Other current liabilities	61	43	61	43	-	-	-	-	-	-
Accrued expenses	345	338	345	338	-	-	-	-	-	-
Total current liabilities	**3,952**	**2,345**	**3,952**	**2,345**	**-**	**-**	**-**	**-**	**-**	**-**

All loans are amortisation free and carry floating interest at three-month period.

Note 21 Acquisitions

Acquisitions during 2019

Acquisition within Compounding
July 1st 2019 the HEXPOL Group acquired 100% of Preferred Compounding, a notable Rubber Compounder in North America.

The acquisition price amounts to approximately 232 MUSD on a cash and debt free basis. The purchase price allocation is preliminary since some information is outstanding. The business is consolidated from July 2019. Acquistion related costs are estimated to approximately 2 MUSD. The sales amounted to 118 MUSD and profit after tax to -2 MUSD for the period July to December 2019. For the full year 2019 the sales amounted to 259 MUSD and profit after tax to -6 MUSD.

Below are details of net assets acquired and goodwill for the above acquisition:

MSEK	
Purchase consideration	2,238
Fair value of acquired net assets	611
Goodwill	**1,627**

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition strengthen our global positions within advanced compounds with improved supply chain, cutting-edge expertise in polymer materials and solid knowledge of applications. The fair value of the acquired net assets includes 194 MSEK for the estimated value of acquired intangible assets.

The following assets an liabilities were included in the acquisition:

MSEK	
Cash and cash equivalents	25
Accounts receivable	368
Current assets	237
Tangible assets	232
Intangible assets	194
Deferred tax liabilities	-36
Pensions	-9
Non-current liabillities	-43
Accounts payables	-285
Current liabilities	-72
Acquired net assets	**611**

Goodwill	1,627
Purchase considerations	2,238
Cash and cash equivalents in acquired operations	25
Change in the Group's cash and cash equivalents	**2,213**

Cont.

Cont.

Acquisitions during 2018

Acquisition within Compounding
In September 2018 the HEXPOL Group acquired 100 percent of Kirkhill Rubber, a well-known Rubber Compounder in US.

The acquisition price for Krikhill Rubber amounted to approximately 49 MUSD on a cash and debt free basis. A smaller performance based consideration, approximately 1 MUSD, have been paid during 2019. The business is consolidated as of September 2018. The sales amounted to 14 MUSD and profit after tax to 1 MUSD for the period September to December 2018. For the full year 2018 the sales amounted to 52 MUSD and profit after tax to 4 MUSD.

Below are details of net assets acquired and goodwill for the above acquisition:

MSEK	
Purchase consideration	453
Fair value of acquired net assets	148
Goodwill	**305**

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition extends our capacity and ability to serve our customers more efficiently. The fair value of the acquired net assets includes 30 MSEK for the estimated value of acquired intangible assets.

The following assets an liabilities were included in the acquisition:

MSEK	
Accounts receivable	78
Current assets	61
Tangible assets	18
Intangible assets	30
Deferred tax liabilities	-10
Accounts payables	-25
Current liabilities	-4
Acquired net assets	148

Goodwill	305
Purchase considerations	453
Contingent considerations	-11
Change in the Group's cash and cash equivalents	**442**
- where off changes in the Group's cash and cash equivalents during 2019	**6**

Acquisition within Compounding
In early October 2018 the HEXPOL Group acquired 80 percent of MESGO Group, an industry leader in high performance elastomers. The acquisition price for 80% of the shares amounted to approximately 168 MEUR on a cash and debt free basis and has been founded by a combination of existing bank facilities and cash. According to the agreement HEXPOL has an option to acquire the remaining shares (during the period March 2022–June 2023) and the Caldara family has an option to sell the remaining shares to HEXPOL (during the period March 2020–June 2023), the commitment is reported as a liability to minority shareholder. The business is consolidated as of October 2018. The sales amounted to 23 MEUR and profit after tax to 5 MEUR for the period October to December 2018. For the full year 2018 the sales amounted to 104 MEUR and profit after tax to 10 MEUR.

Below are details of net assets acquired and goodwill for the above acquisition:

MSEK	
Purchase consideration	2,036
Fair value of acquired net assets	714
Goodwill	**1,322**

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition extends our capacity and ability to serve our customers more efficiently. The fair value of the acquired net assets includes 291 MSEK for the estimated value of acquired intangible assets.

The following assets an liabilities were included in the acquisition:

MSEK	
Cash and cash equivalents	53
Accounts receivable	339
Current assets	264
Tangible assets	176
Intangible assets	291
Deferred tax liabilities	-84
Pensions	-18
Accounts payables	-171
Current liabilities	-136
Acquired net assets	714

Goodwill	1,322
Purchase considerations	2,036
Liability to minority shareholder	-386
Loan	88
Cash and cash equivalents in acquired operations	53
Change in the Group's cash and cash equivalents	**1,685**
-where off changes in the Group's cash and cash equivalents during 2019	**-15**

Note 22 Significant subsequent events

HEXPOL and former CEO Mikael Fryklund have decided to part ways as of February 14, 2020. Peter Rosén was appointed acting CEO on the same day.

Due to the Covid-19 outbreak, there is a substantial risk that there will be a significant financial impact for the Group, particularly from March and onwards. Moving forward, we and our suppliers will do everything possible to mitigate the consequences for our customers and for the entire HEXPOL Group. Given the current uncertainty, it is not possible to fully predict the financial consequences for the HEXPOL Group.

Parent company's Income Statement

MSEK	Note	2019	2018
Sales	23	54	47
Administration costs		-62	-60
Operating profit	24, 25	**-8**	**-13**
Financial income	26	1,425	2,255
Financial expense	26	-130	-285
Profit after financial items		**1,287**	**1,957**
Appropriations	27	0	61
Profit before tax		**1,287**	**2,018**
Tax	28	-26	-1
Profit after tax		**1,261**	**2,017**

Comprehensive income matches profit after tax.

Parent company's Balance Sheet

MSEK	Note	2019	2018
ASSETS			
Fixed assets			
Tangible fixed assets		0	-
Intanglible fixed assets	29	2	0
Interest-bearing intra-Group receivables		747	723
Holdings of shares in Group companies	32	8,219	8,233
Deferred tax assets		0	0
Total fixed assets		**8,968**	**8,956**
Current assets			
Intra-Group operating receivables		137	164
Interest-bearing intra-Group receivables		2,276	1,050
Prepaid expenses and accrued income		39	39
Cash and cash equivalents		556	598
Total current assets		**3,008**	**1,851**
TOTAL ASSETS		**11,976**	**10,807**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Restricted shareholders' equity			
Share capital		69	69
Total restricted shareholders' equity		**69**	**69**
Non-restricted shareholders' equity			
Share premium reserve		598	598
Accumulated earnings		2,980	1,737
Profit after tax		1,261	2,017
Total non-restricted shareholders' equity		**4,839**	**4,352**
Total shareholders' equity		**4,908**	**4,421**
Untaxed reserves	27	**0**	**-**
Non-current liabilities			
Liabilities to credit institutions	31	2,390	2,290
Total non-current liabilities		**2,390**	**2,290**
Current liabilities			
Accounts payable		4	3
Current tax liabilities		25	20
Interest-bearing intra-Group liabilities		3,506	4,044
Liabilities to credit institutions	31	1,120	-
Accrued expenses and prepaid revenues	30	23	29
Total current liabilities		**4,678**	**4,096**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**11,976**	**10,807**

Changes in the parent company's shareholders' equity

MSEK	Share capital	Share premium reserve	Accumulated earnings	Total shareholders' equity
December 31, 2017	**69**	**598**	**2,408**	**3,075**
2018				
Total comprehensive income				
Profit after tax	-	-	2,017	2,017
Transaction with shareholders				
Dividend	-	-	-671	-671
December 31, 2018	**69**	**598**	**3,754**	**4,421**
2019				
Total comprehensive income				
Profit after tax	-	-	1,261	1,261
Transaction with shareholders				
Dividend	-	-	-774	-774
December 31, 2019	**69**	**598**	**4,241**	**4,908**

Parent company's cash flow statements

MSEK	2019	2018
Cash flow from operations		
Operating profit	-8	-13
Adjustment for non-cash items, depreciations	0	0
Financial income received	117	78
Financial expenses paid	-126	-286
Tax paid	-11	-24
Cash flow from operations before changes in working capital	**-28**	**-245**
Cash flow from changes in working capital		
Changes in current receivables	-8	2
Changes in current liabilities	-8	-9
Cash flow from operations	**-44**	**-252**
Investing operations		
Investments in intangible fixed assets	-2	-
Changes in interest-bearing receivables	-1,224	-288
Dividends from subsidiaries	1,171	1,100
Group contributions received	135	160
Acquisitions	14	-1,668
Cash flow from investing activities	**94**	**-696**
Financing operations		
New/utilized loans	3,995	47,616
Amortized loans	-3,313	-45,905
Dividend	-774	-671
Cash flow from financing operations	**-92**	**1,040**
Cash flow for the year	**-42**	**92**
Cash and cash equivalents, January 1	598	506
Cash and cash equivalents, December 31	**556**	**598**

Note 23

Of the Parent Company's net sales, 100 percent pertains to sales of services to other Group companies and of the Parent Company's purchases, a small part pertains to purchases from other Group companies.

Note 24 Employees and personnel expenses

	2019	2018
Average number of employees		
Women	3	3
Men	3	2
Total	**6**	**5**

MSEK	2019	2018
Salaries, other remunerations and social-security costs		
Board of directors	4	4
CEO	11	16
Other employees	6	10
Social security costs, pension costs and payroll tax	13	16
Total	**34**	**46**

Note 25 Fees and expense reimbursement to auditors

KSEK	2019	2018
EY		
Audit assignment	1,775	1,138
Tax consultancy	-	-
Other services	-	-
Total	**1,775**	**1,138**

Note 26 Financial income and expenses

MSEK	2019	2018
Dividend	1,171	1,100
Reduction of shareholders equity from subsidiaries	-	917
Group contributions	135	160
Interest income	19	20
Interest income from Group receivables	100	58
Exchange-rate gains	0	0
Other financial income	0	0
Financial income	**1,425**	**2,255**
Interest expense	-34	-16
Interest expense from Group liabilities	-86	-74
Exchange-rate loss	-6	-192
Other financial expense	-4	-3
Financial expenses	**-130**	**-285**

Note 27 Appropriations and untaxed reserves

MSEK	2019	2018
Reversal of Tax allocation reserve	-	61
Accumulated excess depreciation	0	-
Total	**0**	**61**

MSEK	2019	2018
Opening balance, January 1	**-**	**61**
Reversal of Tax allocation reserve	-	-61
Accumulated excess depreciation	0	-
Closing balance, December 31	**0**	**-**

Note 28 Taxes

MSEK	2019	2018
Current tax expense		
Tax expense for the year	-26	-1
Deferred tax expense		
Deferred tax pertaining to temporary differences	0	0
Total reported tax expense	**-26**	**-1**

MSEK	2019		2018	
Reconciliation effective tax				
Profit before tax	1,287		2,018	
Tax according to current tax rate for the parent company	-275	-21 %	-444	-22 %
Non-deducteble costs	-1	-0 %	0	0 %
Non-taxable revenues	250	19 %	443	22 %
Total reported tax cost	**-26**	**-2 %**	**-1**	**-0 %**

Note 29 Intangible fixed assets

Accumulated acquisition value	**Other intangible**		**Total**	
MSEK	2019	2018	2019	2018
Opening balance, January 1	-	-	-	-
Investments	2	-	2	-
Closing balance, December 31	**2**	**-**	**2**	**-**

Accumulated depreciations	**Other intangible**		**Total**	
MSEK	2019	2018	2019	2018
Opening balance, January 1	-	-	-	-
Depreciations for the year	-	-	-	-
Divestments, disposals	-	-	-	-
Closing balance, December 31	**-**	**-**	**-**	**-**
Carrying amount, December 31	**2**	**-**	**2**	**-**

Note 30 Accrued expenses and deferred income

MSEK	2019	2018
Personnel-related expenses	16	27
Other	7	2
Total	**23**	**29**

Note 31 Interest-bearing liabilities to credit institutions

MSEK	2019	2018
Non-current liabilities		
Liabilities to credit institutions	2,390	2,290
Non-current liabilities	**2,390**	**2,290**
Current liabilities		
Liabilities to credit institutions	1,120	-
Current liabilities	**1,120**	**-**
Bilateral loan 1,500 MSEK	-	990
Bilateral loan 1,500 MSEK	920	990
Bilateral loan 125 MUSD	-	310
Bilateral loan 2,000 MSEK	1,470	-
Total non-current liabilities	**2,390**	**2,290**
Bilateral loan 1,500 MSEK	940	-
Bilateral loan 125 MUSD	180	-
Total current liabilities	**1,120**	**-**

Note 32 The parent company's holdings of shares and participations in group companies

Subsidiaries	Corp. Reg. No.	Registered office	Proportion of equity %	Carrying amount, MSEK	Proportion of equity %	Carrying amount, MSEK
			2019		2018	
Gislaved Gummi AB	556112-2382	Gislaved, Sweden	100	101	100	101
Megufo AB	556421-2453	Gislaved, Sweden	50		50	
HEXPOL Holding AB	559078-6405	Malmö, Sweden	100	0	100	0
Stellana AB	556084-8870	Laxå, Sweden	100	29	100	29
Elastomeric Engineering Co., Ltd. 1)		Sri Lanka	99,6	58	99,6	58
Gislaved Gummi Lanka (Pvt) Ltd.		Sri Lanka	100		100	
Elastomeric Tools & Dies (Pvt) Ltd. 2)		Sri Lanka	100		100	
HEXPOL Compounding HQ Sprl		Belgium	100	702	100	702
HEXPOL Compounding Sprl		Belgium	100		100	
Socofin Sprl-u		Belgium	100		100	
Corvus bvba		Belgium	100		100	
HEXPOL Compounding s.r.o		Czech Republic	100	435	100	435
HEXPOL Compounding Lesina s.r.o		Czech Republic	100	709	100	709
HEXPOL Compounding (Qingdao) Co., Ltd.		China	100	56	100	56
HEXPOL Compounding S.A de C.V 3)		Mexico	100		100	
HEXPOL Services Compounding S.A de C.V 3)		Mexico	100		100	
Gislaved Gummi (Qingdao) Co., Ltd.		China	100	33	100	33
Stellana (Qingdao) Co., Ltd.		China	100	7	100	7
HEXPOL Compounding GmbH		Germany	100	70	100	70
HEXPOL TPE GmbH		Germany	100		100	
HEXPOL Compounding Viersen CoKG		Germany	100		100	
HEXPOL Compounding Viersen Verwaltungs GbmH		Germany	100		100	
Stellana Deutschland GmbH		Germany	100		100	
HEXPOL TPE AB	556191-5777	Åmål, Sweden	100	250	100	250
HEXPOL TPE Ltd		Great Britain	100	34	100	34
HEXPOL sàrl		Luxembourg	100	0	100	0
HEXPOL Compounding S.L.U		Spain	100	33	100	33
Berwin Group Limited		Great Britain	100	365	100	365
Flexi-Cell (UK) Ltd		Great Britain	100		100	
Berwin Rubber Company Limited		Great Britain	100		100	
Berwin of Lydney Limited		Great Britain	100		100	
Berwin Industrial Polymers Limited		Great Britain	100		100	
MESGO SpA		Italy	80	1,654	80	1,668
MESGO Iride Colors Srl		Italy	100		100	
3A MCOM Srl		Italy	100		100	
MESGO Polska		Poland	100		100	
MESGO Asia		Turkey	100		100	
HEXPOL Finance UK Ltd		Great Britain	100	0	100	0
HEXPOL Holding Inc.		USA	100	3,683	100	3,683
RheTech LLC		USA	100		100	
RheTech Engineered Plastics		USA	100		100	
RheTech Thermocolor LLC		USA	100		100	
Robbins Holding Inc.		USA	100		100	
Robbins LLC		USA	100		100	
Synpol LLC		USA	100		100	
HEXPOL Compounding CA Inc		USA	100		100	
Kirkhill Rubber Company		USA	100		100	
Preferred Compounding Corp.		USA	100		-	
Preferred Compounding de Mexico S. de R.L. de C.V.		Mexico	100		-	
HEXPOL UK Ltd		Great Britain	100		100	
Stellana U.S. Inc.		USA	100		100	
GoldKey Processing Inc.		USA	100		100	
HEXPOL Compounding NC Inc.		USA	100		100	
HEXPOL Compounding LLC		USA	100		100	
HEXPOL Compounding (UK) Ltd		Great Britain	100		100	
Chase Elastomer (UK) Ltd.		Great Britain	100		100	
HEXPOL Compounding Services Queretaro S.A. de C.V. 4)		Mexico	100		100	
HEXPOL Compounding Queretaro S.A. de C.V. 5)		Mexico	100		100	
HEXPOL H.K Co., Ltd.		China	100		100	
HEXPOL Asia LLC		USA	100		100	
HEXPOL Compounding (Foshan) Co., Ltd.		China	100		100	
Total carrying amount in the Parent Company				**8,219**		**8,233**

Continued

MSEK	2019	2018
Holdings of shares in Group Companies		
Opening balance	8,233	5,648
Shareholder contributions	-	3,452
Reduction of shareholder´s equity in subsidiaries	-	-2,535
Acquisitions	-14	1,668
Carrying amount	**8,219**	**8,233**

1) Gislaved Gummi AB owns 200 shares included in this holding. The remaining 0.4 percent of the shares is owned by the external parties.
2) Gislaved Gummi Lanka (Pvt) Ltd. Owns 69.6% and Elastomeric Engineering Company Ltd 30.4% of the shares.
3) HEXPOL AB owns 99 percent and HEXPOL Compounding HQ Sprl owns 1 percent of the shares.
4) HEXPOL Compounding LLC owns 99 percent and HEXPOL Compounding Querétaro S.A. de C.V. owns 1 percent of the shares.
5) HEXPOL Compounding LLC owns 99 percent and HEXPOL Compounding Querétaro S.A. de C.V. owns 1 % of the shares.

Note 33 Assets pledged

MSEK	2019	2018
Sureties for subsidiaries	85	59
Total	**85**	**59**

Note 34 Proposed distribution of unappropriated earnings

The following unrestricted funds in the Parent Company are at the disposal of the Annual General Meeting (KSEK):

Profit brought forward	2,979,840
Share premium reserve	597,880
Profit of the year	1,260,986
Total unrestricted funds	**4,838,706**

The Board proposes the unappropriated funds to be disposed as follows: that the shareholders are paid a dividend of 2.30 SEK per share.

Total dividend from profit brought forward	791,663
To be carried forward	4,047,043
Total	**4,838,706**

The undersigned give their assurances that the consolidated financial statements and the Annual Report were prepared in accordance with international accounting standards, IFRS, as adopted by the EU, and generally accepted accounting principles and provide a fair view of the Group's and the Parent Company's position and earnings, and that the Administration Report gives a fair impression of the development of the Group's and the Parent Company's operations, position and earnings, while also describing the material risks and uncertainties facing the companies included in the Group.

Malmö 30 March 2020

Georg Brunstam
Chariman of the Board

Alf Göransson
Board Member

Malin Persson
Board Member

Märta Schörling Andreen
Board Member

Kerstin Lindell
Board Member

Gun Nilsson
Board Member

Jan-Anders E. Månson
Board Member

Peter Rosén
Acting CEO

As shown above, the Annual Report and the consolidated financial statements were approved for issue by the Board of Directors on 30 March, 2020. The consolidated income statement and balance sheet and the Parent Company's income statement and balance sheet will be presented to the Annual General Meeting on 28 April, 2020 for adoption.

Our audit report was submitted on 30 March 2020

ERNST & YOUNG AB

Johan Thuresson
Authorized Public Accountant, Auditor-in-charge

Auditor's Report

To the general meeting of the shareholders of HEXPOL AB (publ), corporate identity number 556108-9631.

Report on the annual accounts and consolidated accounts.

Opinions

We have audited the annual accounts and consolidated accounts of HEXPOL AB (publ) except for the corporate governance statement on pages 56–65 and the statutory sustainability report on pages 41–48 for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 38–53, 56–65, 68–92 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 56–65 and the statutory sustainability report on pages 41–48. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Goodwill and participations in group companies

Description

The carrying value of goodwill as of 31 December 2019 amounts to 8.723 MSEK in the consolidated balance sheet, which represents 50 percent of total assets. Participations in group companies amounts to 8.219 MSEK in the parent company's balance sheet, which represents 69 percent of total assets. The company performs an impairment test annually, and when there is an indication of impairment, to ensure the carrying value does not exceed the estimated recoverable value. The recoverable amount is determined for each cash generating unit by calculating the present value of future cash flows. Future cash flows are based on management's business plans and forecasts, and includes a number of assumptions, including earnings performance, growth, investment requirements and the discount rate. For participations in group companies the recoverable amount is the higher of fair value and value in use.

Changes in assumptions have a major impact on the calculation of the recoverable amount and the assumptions that the company applied will be of significant importance for the assessment whether an impairment requirement exists. We have therefore assessed the accounting for goodwill and participations in group companies as a key audit matter.

A description of the impairment test is shown in Note 9 "Intangible fixed assets" and in Note 1 Accounting Policies section "Important assessments and assumptions".

How our audit addressed this key audit matter

In our audit, we evaluated and reviewed the company's process for preparing impairment test, including evaluating past accuracy of forecasts and assumptions. We also evaluated the reasonableness of future cash flows and growth assumptions and with the help of our valuation specialists examined the selected discount rate and assumptions about long-term growth. We have also reviewed the company's model and method for preparing the impairment test and assessed the company's sensitivity analyzes. We have reviewed the disclosures in the annual report.

Cont.

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Acquisition of Preferred Compounding

Description
The Group has during 2019 acquired Preferred Compounding, where the acquisition price for all shares has been calculated to 2.238 MSEK on debt-free basis. Acquired intangible fixed assets have been calculated to 1.821 MSEK, of which goodwill is 1.627 MSEK. The company's disclosures about acquisitions are stated in Note 21 "Acquisitions" and in Note 1 Accounting Policies section "Consolidated financial statements" and section "Important assessments and assumptions".

Accounting for the acquisition of Preferred Compounding has required estimates from the company. The most significant estimate refers to the assessment of fair values of separately identifiable assets and liabilities when allocating the purchase price. When preparing the preliminary purchase price analysis, the company has made several assumptions including future cash flows, growth, discount rate and choice of model for valuation. We have therefore assessed the reporting of this acquisition as a key audit matter.

How our audit addressed this key audit matter
In our audit, we evaluated and reviewed the company's process for preparing the preliminary purchase price analysis, including evaluating the reasonableness of future cash flows and growth assumptions. Together with our valuation specialists, we examined the company's models and methods for preparing the purchase price analysis and the reasonableness of the choice of valuation model, assumptions including discount rate and future cash flows to determine the fair values of acquired assets and liabilities and useful lives for the assets. We have reviewed the disclosures in the annual report.

Other Information than the annual accounts and consolidated accounts
This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–37, 41–48, 54–55, 66–67 and 96–100. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.
The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility
Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:
- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Cont.

Cont.

Report on other legal and regulatory requirements

Opinions
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of HEXPOL AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions
We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility
Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement
The Board of Directors is responsible for that the corporate governance statement on pages 56–65 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

The auditor´s opinion regarding the statutory sustainability report
The Board of Directors is responsible for the statutory sustainability report on pages 41–48, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor´s opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of HEXPOL AB (publ) by the general meeting of the shareholders on the 26th April 2019 and has been the company's auditor since 4th June 2002. HEXPOL AB (publ) has been a public interest entity since 9th June 2008.

Malmö 30 March 2020

ERNST & YOUNG AB

Johan Thuresson
Authorized Public Accountant

Ten-year summary

MSEK	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
INCOME STATEMENTS, condensed										
Sales	15,508	13,770	12,230	10,879	11,229	8,919	8,036	8,007	7,197	3,798
Operating expenses	-13,465	-11,620	-10,244	-8,958	-9,265	-7,463	-6,781	-6,938	-6,302	-3,402
Operating profit	**2,043**	**2,150**	**1,986**	**1,921**	**1,964**	**1,456**	**1,255**	**1,069**	**895**	**396**
Net financial items	-35	11	-18	-8	-21	-20	-19	-22	-23	-26
Profit before tax	**2,008**	**2,161**	**1,968**	**1,913**	**1,943**	**1,436**	**1,236**	**1,047**	**872**	**370**
Tax	-466	-515	-441	-516	-550	-388	-306	-294	-253	-97
Result after tax	**1,542**	**1,646**	**1,527**	**1,397**	**1,393**	**1,048**	**930**	**753**	**619**	**273**
BALANCE SHEETS, condensed										
Assets										
Fixed assets	12,116	9,698	7,048	6,423	5,868	4,832	3,946	3,971	3,365	3,438
Current assets	3,685	3,594	2,489	2,128	1,877	1,626	1,335	1,372	1,286	1,155
Cash and cash equivalents	1,624	1,164	813	1,297	978	826	597	564	557	318
Total assets	**17,425**	**14,456**	**10,350**	**9,848**	**8,723**	**7,284**	**5,878**	**5,907**	**5,208**	**4,911**
Shareholders' equity and liabilities										
Shareholders' equity	9,756	8,592	7,010	7,559	6,233	5,049	3,617	2,909	2,473	1,327
Interest-bearing liabilities	4,003	2,332	840	29	524	567	962	1,809	1,698	2,592
Other liabilities and provisions	3,666	3,532	2,500	2,260	1,966	1,668	1,299	1,189	1,037	992
Total shareholders' equity and liabilities	**17,425**	**14,456**	**10,350**	**9,848**	**8,723**	**7,284**	**5,878**	**5,907**	**5,208**	**4,911**
CASH FLOW STATEMENTS, condensed										
Cash flow from operating activities	2,361	1,806	1,699	1,710	1,760	1,432	1,223	1,115	726	387
Net investments in tangible and intangible fixed assets	-286	-207	-195	-150	-118	-118	-136	-177	-103	-32
Acquisitions of operations	-2,204	-2,190	-1,081	-295	-1,043	-413	-3	-926	1	-1,827
Cash flow from financing activities	427	775	-823	-1,075	-479	-777	-1,060	33	-390	1,498
Cash flow for the year	**298**	**184**	**-400**	**190**	**120**	**124**	**24**	**45**	**234**	**26**
Cash and cash equivalents, January 1	1,164	813	1,297	978	826	597	564	557	318	317
Exchange rate differences in cash flow	162	167	-84	129	32	105	9	-38	5	-25
Cash and cash equivalents, December 31	**1,624**	**1,164**	**813**	**1,297**	**978**	**826**	**597**	**564**	**557**	**318**
Key figures										
Average shareholders' equity, MSEK	9,534	8,077	6,871	6,826	5,887	4,333	3,263	2,691	2,038	1,268
Average capital employed, MSEK	13,484	9,678	7,898	7,186	6,861	5,116	4,664	4,458	4,057	2,780
Return on shareholders' equity %	16.2	20.4	22.2	20.5	23.7	24.2	28.5	28.0	30.4	21.5
Return on capital employed, %	15.2	22.5	25.1	26.8	28.6	28.5	27.0	24.0	22.3	13.9
Sales growth excl currency effects, %	7	9	12	-4	11	6	6	-2	-9	-11
Operating margin, %	13.2	15.6	16.2	17.7	17.5	16.3	15.6	13.4	12.4	10.4
Profit margin before tax, %	12.9	15.7	16.1	17.6	17.3	16.1	15.4	13.1	12.1	9.7
Earnings per share, before dilution SEK*, **	4.48	4.78	4.44	4.06	4.05	3.05	2.70	2.19	1.87	0.93
Earnings per share, after dilution SEK*, **	4.48	4.78	4.44	4.06	4.05	3.05	2.70	2.19	1.87	0.93
Net debt, MSEK	-2,376	-1,143	-27	1,268	454	259	-312	-1,215	-1,096	-2,239
Net debt/equity ratio, multiple	-0.2	-0.1	0.0	0.0	0.0	0.0	0.1	0.4	0.4	1.7
Equity/assets ratio, %	56	59	68	77	72	69	62	49	47	27
Shareholders' equity per share, SEK*, **	28.34	24.96	20.37	21.96	18.11	14.67	10.51	8.45	7.19	4.49
Paid dividend, MSEK	774	671	1,635	585	413	310	207	172	103	27
Paid dividend per share, SEK**	2.25	1.95	4.75	1.70	1.20	0.90	0.60	0.50	0.30	0.10
Operating Cash Flow, MSEK	2,607	2,019	2,001	2,057	2,185	1,676	1,418	1,209	911	506
Cash flow from operating activities, MSEK	2,361	1,806	1,699	1,710	1,760	1,432	1,223	1,115	726	387
Cash flow from operating activities per share, SEK*, **	6.86	5.25	4.94	4.97	5.11	4.16	3.55	3.24	2.19	1.32
Average number of employees	4,844	4,454	4,326	4,028	3,858	3,493	3,411	3,112	3,041	2,133
Number of employees at year-end	5,061	4,640	4,389	4,140	3,867	3,666	3,433	3,332	3,020	3,037
Sales per employee, MSEK	3.20	3.09	2.83	2.70	2.91	2.55	2.36	2.57	2.37	1.78

* After the implemented rights issue in 2011, the historical share data was adjusted to take into account a bonus issue element.
** Data per share is adjusted for share split 10:1 May 2015

AREA		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Environment											
Compliance	Number of violations of environmental legislation (fines, penalties)	3	2	3	1	2	2	4	1	3	0
Energy	Energy use (GWh)	417	379	379	355	309	313	275	258	264	147
	Energy use/sales (GWh/MSEK)	0.027	0.029	0.031	0.033	0.030	0.035	0.034	0.032	0.037	0.039
Climate	Carbon dioxide emissions from energy use (tonnes)*	145,800	125,600	140,700	142,900	117,400	114,900	108,500	100,500	100,400	47,700
	Carbon dioxide emissions/sales (tonnes/MSEK)	9.4	9.5	11.5	13.1	11.4	12.9	13.5	12.6	14.0	12.6
Water	Water consumption (1,000s m^3)	1,106.3	718.0	734.8	884.3	700.3	684.1	570 .7	450 .2	452.1	394 .6
	Water consumption/sales (m^3/MSEK)	71	54	60	81	68	77	71	56	63	104
Waste	Amount of waste (tonnes)	26,500	23,100	22,000	19,800	16,000	14,800	14,500	14,900	18,000	8,500
	Amount of waste/sales (tonnes/MSEK)	1.7	1.8	1.8	1.8	1.6	1.7	1.8	1.9	2.5	2.2
Raw materials	Recycled/bio-based plastics and rubber (% of total use)	8	15	15	18	1	3	2	2	2	3
Management systems	ISO 14001-certified facilities (% of total)	76	97	92	89	93	96	88	88	62	81
People											
Employees	Number of employees (average)	4,844	4,454	4,326	4,028	3,858	3,493	3,411	3,112	3,041	2,133
Compliance	Number of violations of environmental legislation (fines, penalties)	3	0	0	1	0	2	0	1	2	0
Health and safety	Workplace accidents, lost working days (number/million hours worked)	12.9	12.8	15.2	15.1	15.9	14.3	10.0	12.6	19.1	15.0
Diversity	Number of women on the Board of Directors of the Group (%)	57	57	57	43	29	29	17	17	17	14
	Number of women in local management teams (%)	18	18	14	15	12	11	10	10	10	10
Training	Training of employees (hours/employee)	32	26	22	19	23	22	16	15	10	6
Management systems	ISO 45001-certified facilities (% of total)	9	11	11	9	7	7	7	0	0	0
Code of Conduct	Reported human rights violations (number)	2	1	1	1	0	1	0	1	1	0
Finance											
	Financial value distributed between stakeholders (MSEK)**	3,357	2,989	3,658	2,559	2,366	1,743	1,431	1,338	1,192	620
	Taxes paid (MSEK)	466	516	441	515	550	388	306	294	253	97

* In accordance with GHG (Greenhouse Gas Protocol) HEXPOL reports Scope 1, that is, emissions from direct energy use (e.g. fuel oil, natural gas), and Scope 2, that is, from indirecxt energy use (e.g. purchased electricity, district heating).

** Compensation to suppliers is not included.

Definitions

Financial definitions

AVERAGE CAPITAL EMPLOYED Average of the last four quarters' capital employed.

AVERAGE SHAREHOLDERS' EQUITY Average of the last four quarters' shareholders' equity. For 2014 and earlier years, the calculation was based on two measuring points.

CASH FLOW FROM OPERATIONS Cash flow from operating activities after changes in working capital.

CASH FLOW FROM OPERATING ACTIVITIES PER SHARE Cash flow from operating activities after changes in working capital divided by the average number of shares outstanding.

CAPITAL EMPLOYED Total assets less non-interest-bearing liabilities.

EARNINGS PER SHARE Profit after tax, attributable to Parent Company shareholders, divided by average number of shares outstanding.

EARNINGS PER SHARE AFTER DILUTION Profit after tax attributable to Parent Company shareholders divided by average number of shares outstanding adjusted for the dilution effect of warrants.

EARNINGS PER SHARE EXCL. NON-RECURRING ITEMS Profit after tax excluding non-recurring items, attributable to Parent Company shareholders divided by average number of shares outstanding.

EBITA Operating profit, excluding amortisation and impairment of intangible assets.

EBITA MARGIN EBITA in relation to sales.

EBITDA Operating profit before depreciation, amortization and impairment.

EQUITY/ASSETS RATIO Shareholders' equity as a percentage of total assets.

EQUITY PER SHARE Shareholders' equity attributable to Parent Company shareholders divided by the number of shares outstanding at the end of the period.

INVESTMENTS Purchases less sales of intangible and tangible fixed assets, excluding those included in acquisitions and divestments of subsidiaries.

INTEREST-COVERAGE RATIO Profit before tax plus interest expenses in relation to interest expenses.

NET DEBT, NET CASH Interest-bearing liabilities less cash and cash equivalents and interest-bearing assets.

NET DEBT/EQUITY RATIO Interest-bearing liabilities less cash and cash equivalents and interest-bearing assets divided by shareholders' equity.

NON-RECURRING ITEMS Non-recurring items refers to integration- and restructuring costs and acquisition costs.

OPERATING CASH FLOW Operating profit excluding items affecting comparability less depreciation/amortization and investments, and after change in working capital.

OPERATING PROFIT ADJUSTED FOR NON-RECURRING ITEMS Operating profit adjusted for non-recurring items.

OPERATING MARGIN ADJUSTED FOR NON-RECURRING ITEMS Operating profit adjusted for non-recurring items in relation to sales.

OPERATING MARGIN Operating profit as a percentage of sales.

PROFIT MARGIN BEFORE TAX Profit before tax as a percentage of the sales.

RETURN ON EQUITY Profit after tax, attributable to Parent Company shareholders, as a percentage of average shareholders' equity, excluding minority interests.

RETURN ON CAPITAL EMPLOYED Profit before tax plus interest expenses as a percentage of average capital employed.

SALES GROWTH EXCLUDING CURRENCY EFFECTS Sales growth excluding currency effects compared to the sales for the corresponding year-earlier period.

SALES GROWTH EXCLUDING CURRENCY EFFECTS AND ACQUISITIONS Sales growth excluding currency effects and acquisitions compared to the sales for the corresponding year-earlier period.

HEXPOL uses alternative key figures associated with the Group's financial position: return on capital employed, net debt, net cash, debt/equity ratio and equity/assets ratio. The key figures are used to assess opportunities for dividends, strategic investments and to manage financial commitments. Operating cash flow is used to show what funds the operations generate to make strategic investments and repayments, as well as to pay dividends. HEXPOL considers earnings measures excluding non-recurring items to be of value to investors in understanding underlying earnings before non-recurring items. Sales growth, excluding exchange rate effects and acquisitions are valuable key figures for HEXPOL and investors in being able to monitor the trend in the underlying operations.

Operational definitions

CARBON DIOXIDE (CO_2) Carbon dioxide is formed in all processes involving the combustion of carbon containing material, such as from the combustion of fossil fuels. Carbon dioxide emissions increase global warming (the greenhouse effect).

CDP Carbon Disclosure Project, an organization that provides information to global investors and financial institutions about how climate change affects business. The information is gathered by voluntary submissions of greenhouse emission data, actions taken to reduce emissions and the result of the measures.

CLP Classification, Labelling and Packaging, an EU legislation addressing the danger of chemical substances and mixtures, and the manner in which users should be informed about them.

CO_2e GHG Green House Gases. HEXPOL reports emissions of the greenhouse gas carbon dioxide (CO_2 equivalents; CO_2e) from energy use, that is, Scope 1 and Scope 2 in accordance with GHG Protocol.

CODE OF CONDUCT Guidelines for HEXPOL's employees and suppliers concerning business ethics, environment, health, safety and social responsibility. The Group's code of conduct is called Materializing Our Values.

COMPRESSION MOULDING Moulding and vulcanization of the polymer product by means of injection whereby the polymer is forced into a closed mould (injection), alternatively, is placed directly in the cavity in the mould before the mould is closed and the product is thus formed (compression).

ENERGY CONSUMPTION HEXPOL reports both its direct energy consumption (use of fuels in its own energy facilities) and its indirect consumption (purchased electricity and district heating).

ENVIRONMENTAL ASPECTS Those features of an organization's activities, products or services that interact with the environment.

ENVIRONMENT-RELATED COSTS Costs that can be attributed to actions taken to prevent, reduce or rectify the environmental impact of an organization's operations. The equivalent applies to costs in the health and safety area. The costs include administration, purchases of external services, fees paid to public authorities, maintenance of environmental management systems, the cost of waste and costs for external inspections and audits.

ENVIRONMENT-RELATED INVESTMENTS Investments for preventing and reducing the environmental impact of an organization's operations. The equivalent applies to investments in improved working environment.

EXTRUSION Continuous vulcanization whereby a profile is created by having the rubber fed via a screw and pressed through a matrix. Vulcanization occurs directly after the matrix in a continuous process (furnaces with conveyor belt).

GLOBAL COMPACT A UN initiative concerning corporate responsibility. The participating organizations undertake to support ten fundamental principles in respect of human rights, labour conditions, environmental considerations and anti-corruption. HEXPOL joined the Global Compact in 2015.

GLOBAL GOALS At the UN summit in 2015, the world's heads of state and government adopted 17 Global Goals and Agenda 2030 for sustainable development. The Global Goals and Agenda 2030 aim to eradicate poverty and hunger, achieve human rights for all, achieve equality and empowerment for all women and girls, and to ensure lasting protection for the planet and its natural resources. The Global Goals are integrated and indivisible and balance the three dimensions of sustainable development – the economic, the social and the environmental.

GRI Global Reporting Initiative has established voluntary global guidelines for how companies and other organizations to report on their activities in sustainable development.

INJECTION MOULDING Injection moulding is a common manufacturing method for various polymer products. The equipment comprises an injection unit and a mould-locking unit, as well as form or tool that is unique for each product. The injection unit is fed with granulated polymer in a funnel that leads down into a heated cylinder. The polymer is propelled by a screw, which also functions as a piston. The form, which is frequently two-part, opens and fills with the melted polymer, which is cooled.

ISO 9001 A management system standard for quality processes in a company or organization. A management system that describes how the Company continually improves and adjusts its operations to meet customer needs.

ISO 14001 International standard concerning environmental management systems, which was introduced in 1996. In excess of 360,000 organizations worldwide are currently ISO 14001 certified. An updated version of the standard was published in 2015 (ISO 14001:2015).

ISO 26000 International standard that provides guidance concerning how organizations are to address social responsibility matters. The standard was introduced in 2010 and encompasses all aspects of sustainability.

ISO 45001 International standard for health and safety, replacing OHSAS 18001.

ISO 50001 International standard governing energy management systems.

OEM Original Equipment Manufacturer is a term for companies that manufacture the end-product to be sold on the open market. The product may consist exclusively of proprietary components or, most commonly, a combination of proprietary components and components purchased from sub suppliers that are assembled by the OEM company for the end product.

PA Polyamide, a commonly used thermoplastic.

PCB Polychlorinated biphenyls are a group of industrial chemicals that are hazardous to health and the environment. Use of PCBs was prohibited in Sweden in 1972, but they are still present in the environment due to their long decomposition time.

PHE Plate Heat Exchanger.

POLYMERS Chemical compounds consisting of very long chains comprising smaller repeating units (monomers). Plastic and rubber are examples of polymer materials.

PP Polypropylene, a low-density, high-tensile thermoplastic.

REACH Chemicals legislation within the EU intended to ensure safer handling of chemicals. Chemical substances must be registered for a certain use and particularly hazardous substances may be subject to restrictions.

ROHS Restrictions of Hazardous Substances. EU legislation restricting the use of certain substances that are hazardous to the environment and health.

SUSTAINABLE DEVELOPMENT The concept pertains to a development that "satisfies the needs of today without compromising the ability of future generations to meet their own needs". Sustainable development encompasses ecological, social and financial sustainability.

SUSTAINABILITY REPORT In accordance with an EU directive, the Swedish government has determined that sustainability reporting is to be mandatory for large companies as of 2017. The Sustainability Report shall include the non-financial data necessary to comprehend the Company's development, position, performance, and the impact of its operations, including disclosures on issues involving the environment, personnel, and social conditions, respect for human rights and combating corruption.

TP Thermoplastic compounds is a plastic material that becomes pliable or moldable above a specific temperature and solidifies upon cooling.

TPE Thermoplastic elastomer compounds are rubber-like materials that combine the properties of vulcanized rubber with the process benefits of thermoplastics.

TPO Polyolefin blends.

TPS Styrenic block copolymers.

TPU Thermoplastic polyurethanes.

Shareholder information

Annual General Meeting

The Annual General Meeting will be held on April 28, 2020, at 3:00 p.m. CET in Malmö Sweden (Börshuset, Skeppsbron 2).

Due to the continued spread of the coronavirus, precautionary measures will be implemented in connection with the AGM. Any updated information will be published on HEXPOL AB´s website www.hexpol.com.

Shareholders who wish to participate in the AGM must

- be registered in the shareholders' register maintained by Euroclear Sweden AB no later than 22 April 2020,
- notify the Company of their participation by mail to HEXPOL AB, "Annual General Meeting", c/o Euroclear Sweden, Box 191, SE-101 23 Stockholm, by telephone on +46 (0)8-402 90 49 or via the website www.hexpol.com by 22 April 2020 at the latest.

Shareholders whose shares are registered with a trustee must temporarily re-register the shares in their own name not later than 22 April 2020 to be entitled to participate in the AGM. The trustee should therefore be notified in due time before said date.

Notification should state the shareholder's name, personal identity number, telephone number and number of shares. Shareholders wishing to be represented by proxy should send a power-of-attorney to Euroclear Sweden AB before the AGM.

Proposal for dividend

The Board proposes to the Annual General Meeting on 28 April that a dividend of 2.30 SEK per share be paid.

Annual Report

The Annual Report of HEXPOL is distributed digitally and can be downloaded from the website www.hexpol.com. Those shareholders that wish to receive a printed copy please send name and address to ir@hexpol.com or order it directly from HEXPOL AB's webpage www.hexpol.com.

Financial information is also available in Swedish and English on HEXPOL AB's website www.hexpol.com.

Calendar for financial information

HEXPOL AB will publish financial information on the following dates:

ACTIVITY	DATE
Interim report January-March 2020	28 April 2020
Annual General Meeting	28 April 2020
Half-year report January-June 2020	17 July 2020
Interim report January-September 2020	23 October 2020
Year-end report 2020	Jan/Feb 2021

HEXPOL AB is a public company. Corp. Reg. No. 556108-9631.
Registered office in Malmö, Sweden.

Denna årsredovisning finns även på svenska.
The Annual Report is published in Swedish and English. The Swedish version is the original and has been audited by HEXPOL's auditor. All values are expressed in Swedish kronor (SEK), unless otherwise stated. Swedish kronor is abbreviated SEK and millions of Swedish kronor as MSEK. Figures in parentheses refer to the preceding year, 2018, unless otherwise stated.

The Annual Report is produced by HEXPOL in collaboration with RHR/CC in Malmö and graphic design by G-byrån Sverige in Anderstorp.

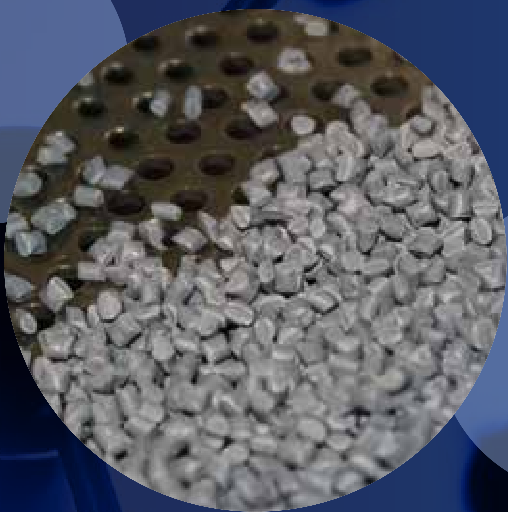
This annual report is printed on Munken Kristall paper from Arctic Paper Munkedals AB, one of the most environmentally friendly paper mills in the world. The Company is ISO 14001 certified. The paper is made from raw materials from sustainable forestry and meets the requirements for both FSC, PEFC and the EU Ecolabel.

The Annual Report is printed by Exakta in Malmö – which has ISO 14001 certification and holds the Nordic Swan environmental certification. The Swan is the official ecolabel of the Nordic countries. They review the environmental impact of goods and services throughout the lifecycle, from raw material to waste, and sets requirements in terms of function and quality.

HEXPOL is a world leading polymer group, with strong global positions in advanced polymer compounds, gaskets for plate heat exchangers and wheels made of plastic and rubber materials for forklifts and castor wheel applications.

Customers are primarily global suppliers to the automotive and engineering industries, the construction and civil engineering industries, and in sectors such as transport, energy, oil/gas and consumer products, as well as the cable and wire industry and medical technology manufacturers, plate heat exchangers and forklifts.

The Group is organized into two business areas, HEXPOL Compounding and HEXPOL Engineered Products. The HEXPOL Group generated sales of 15,508 MSEK in 2019 and the Group has some 5,100 employees in 14 countries.



HEXPOL

A Material Difference

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